

NFT CASE STUDY

VIRTUAL HORSE RACING GAME



Swipe



BACKGROUND



As we are gradually entering into the virtual world, a lot of virtual gaming platforms have emerged

Today's case study covers the possible tax implications and key takeaways of a virtual horse racing game

It is a blockchain based game where owners buy horses in the form of NFT and participate in a horse racing game for a prize



GAME MECHANICS



1. Purchase of virtual horse from NFT Marketplaces

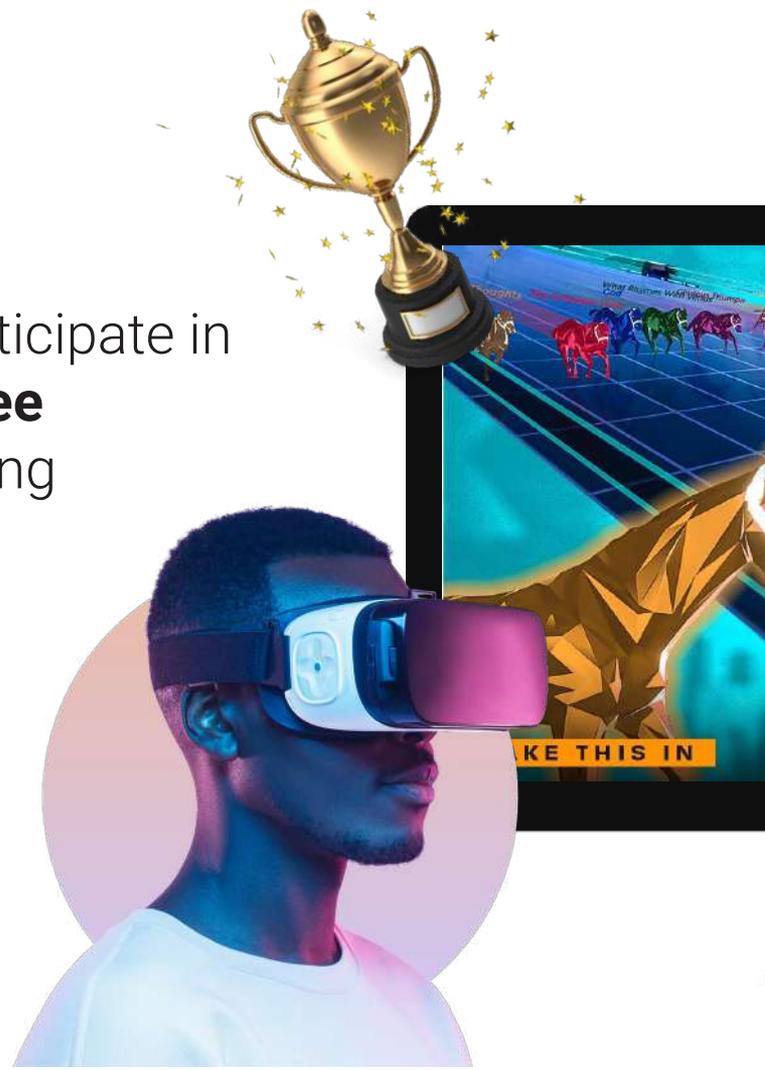
Virtual horse can be bought from NFT marketplaces which is generally paid in **cryptos**. The horse is stored in crypto wallet of the owner in a form of **NFT**

Each horse on the gaming platform is unique in terms of its bloodline, genotype, breed type and coat colour (also referred to as 'genetics' of the horse)

2. Virtual horse racing in a gaming platform

Owner can make his horse participate in horse races by paying a **race fee (participation fee)** to the gaming platform

If the horse comes 1st, 2nd, or 3rd, the owner gets a prize money



GAME MECHANICS (CONT.)



3. Breeding of new virtual horse

Owners can also breed horse. To breed, owners need a male and a female horse

The owner of the female horse gets to keep the offspring, whereas the owner of the male horse receives a **breeding fee** from owner of a female horse

The genetics of offspring is determined based on parent horses' genetics



4. Resale of virtual horse

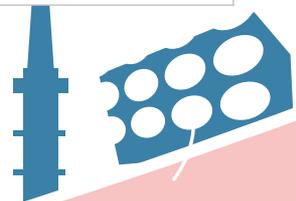
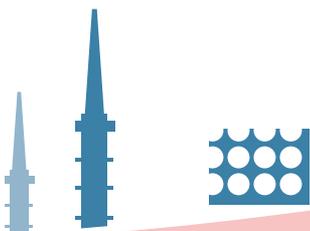
The horse owned / bred by owner can be subsequently **sold** to others





OWNER OF VIRTUAL HORSE

Taxable Event	Possible Tax Implication
Purchase of horse	Purchase of NFT in exchange of crypto may be treated as outside the scope of VAT as cryptos may be considered as akin to fiat currencies
Virtual horse racing	Winnings earned may be outside the scope of VAT as there is no supply of goods/ services
Breeding of a new horse	Breeding fee received by male horse owners may be considered as taxable services
Resale of horse	VAT treatment on sale of NFT may be determined based on the place of use and enjoyment i.e., may be taxable at 5% or outside the scope of VAT



VAT (CONT.)



NFT MARKETPLACE

Taxable Event	Possible Tax Implication
Commission earned on sale of horse (NFT)	Commission received by NFT marketplace could be considered as a taxable activity



GAMING PLATFORM

Taxable Event	Possible Tax Implication
Virtual horse racing	Racing fee received by gaming platform may be treated as a taxable supply

Note:

- NFT gives the 'right to use' a digital asset, thus, may be considered as an electronically supplied service
- Input tax recovery will be dependent on the taxability of the related income

CORPORATE INCOME TAX



OWNER OF VIRTUAL HORSE

Taxable Event	Possible Tax Implication
Purchase of horse	If cryptos are used for buying horse, then it may be treated as a barter transaction
Virtual horse racing	Winnings may be considered as personal income hence may not be subject to corporate tax
Breeding of a new horse	Breeding fee earned may be considered as taxable business income or other income
Resale of horse	Revenue on sale of NFTs may be treated as taxable business income if the seller is engaged in the business of trading NFTs. Otherwise, it is likely to be subjected to capital gains tax



CORPORATE INCOME TAX (CONT.)



NFT MARKETPLACE

Taxable Event	Possible Tax Implication
Sale of horse	Commission received by NFT marketplaces for facilitating the sale of NFTs may be considered as a taxable business income



GAMING PLATFORM

Taxable Event	Possible Tax Implication
Virtual horse racing	Racing fee received by gaming platform may be considered as a taxable business income

Note: UAE sourced income of marketplaces / racing platform (based outside the UAE) may be subject to withholding taxes in the UAE. However, initially the withholding tax would be at 0%.

KEY TAKEAWAYS



- ✓ Parties involved in a virtual horse racing game should consider the possible tax implications of their transactions for them to discharge their tax obligations correctly
- ✓ Correctly determine the place of use and enjoyment (place of supply)
- ✓ Evaluate if there is any withholding tax implication



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