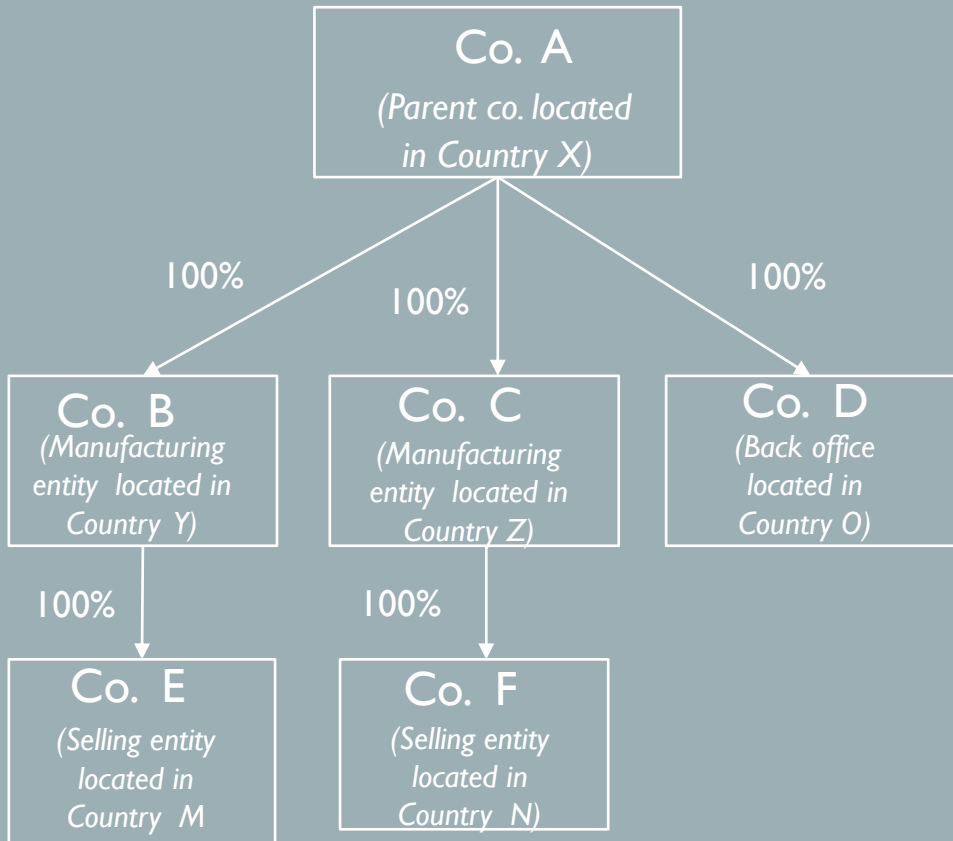


NFTs – Case Study

Situation 1



Facts

- Parent company decided release NFTs.
- The NFTs are minted for parent company by Co. D
- Only parent company has the right to distribute the NFTs

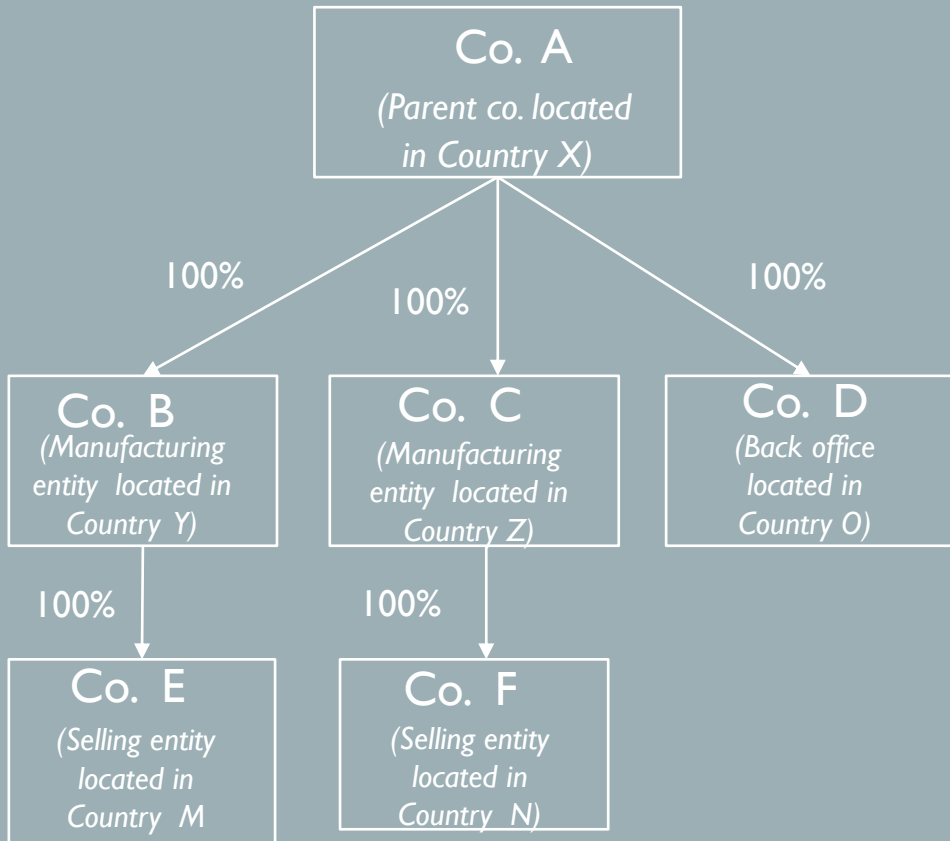
Questions

- Co. A would need to remunerate Co. D for minting of the NFTs on its behalf. What could be transfer pricing implications? *The minting of NFTs could fall in back-office function and Company A can remunerate Company D based on cost plus mark-up (The margin should be representative of realistically alternative option available)*
- The distribution of NFTs helps in brand building and brand awareness. The other group entities would also be benefitted because of this. Since, the parent co. is distributing the NFTs can this be considered as activity providing only incidental benefits to other group entities? *There is a possibility to argue that this could fall in activity only providing incidental benefits and parent company should not charge separately to group entities for this incidental benefits.*

** Depending on the laws on countries there could be withholding tax implications of the payments made to group entity*

NFTs – Case Study

Situation 2



*presuming Co. E & Co. F is selling different product designs

Facts

- The NFTs are minted by Co. D for Co. E & Co. F (different NFTs for different product designs)*
- The NFTs are sold by the selling entities (with no right of further distribution to the customers) – Holder of NFTs gets the right to exchange the NFTs with physical product

Questions

- Co. E & Co. F would need to remunerate Co. D for minting of the NFTs on its behalf. What could be transfer pricing implications? *The minting of NFTs could fall in back-office function and Co. E & Co. F can remunerate Co. D based on cost plus mark-up (The margin should be representative of realistically alternative option available)*
- Should Co. E & Co. F pay royalty to Co. A for getting the NFT minted for the IP/ trademark that Co. A owns? *Yes, Co. E & Co. F should pay royalty to Co. A based on the benchmarking study undertaken.*
- The sale of NFTs by Co. E & Co. F leads to incidental benefit for the entire group – *there are possible arguments to argue that these are incidental benefits, so no separate remuneration is required for it*

* In this case Co. E & Co. F will be acting as distributor entity for physical products while for digital assets (NFTs) they can be regarded as the entity doing the entrepreneurial function.

* Depending on the laws on countries there may be withholding tax implications of the payments made to group entities