3 Tips to Avoid Capital Gains Tax on NFTs

1. Short-Term vs. Long-Term Gain

Like any other asset, NFTs are taxed differently depending on how long you've held them. An asset you've held for less than a year is considered a short-term gain and is taxed at the same rate as income tax. Long-term capital gains are given a preferential tax rate of 0%, 15%, or 20%, depending on your tax bracket. So, the simplest first step to reduce your capital gains taxes is to wait to sell your NFT until you've had it for at least a year.

2. Deferred Sales Trust

A Deferred Sales Trust (DST) is a legal tax strategy that allows you to defer paying capital gains taxes by transferring your asset, in this case, your NFT, to an independent, third-party trust before selling. The trust sells the asset on your behalf and then distributes the proceeds back to you in installments over time. After selling, the trust reinvests your profits according to your desires and risk tolerance.

3. Work with a Professional

Setting up a DST correctly requires the expertise and experience of a qualified Deferred Sales Trust trustee. The IRS constantly updates and changes regulations, especially regarding NFTs. If the trust is not set up correctly and in compliance with all the applicable rules and regulations, the IRS will flag your sale, and you will not only owe all the taxes immediately but may also owe extra fees or penalties.

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