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Emerging trends: Shoppable media and the metaverse

Tax insights and actions

The metaverse is expected to have more of an impact on how we live, work, learn, and play than perhaps any other technological advance to date[1]. Distribution models are embracing all forms of digital interactions, such as buying virtual assets in a gaming world or purchasing real goods from your favorite creator on a social media platform. Entirely new business models are taking shape, and new business models likely mean new tax regulation in the future and potential uncertainty today.

5 insights you should know

1. **Next-gen distribution models.** Many traditional consumer companies are increasing distribution through digital means, leveraging affiliates and social media platforms rather than physical stores or their own websites. Tracking the transactions and potential tax responsibility for the company can be challenging.

2. **Digital assets.** When consumers purchase a digital asset, whether in a gaming world or on a music platform or some other NFT channel, they typically want transportability between platforms.

3. **Unpack bundles.** Many companies are bundling digital assets and physical assets to encourage adoption and nurture brand loyalty. Tangible and digital assets may be taxed differently. Companies need to be aware of the different tax treatment and reporting requirements in various jurisdictions around the globe.

4. **Virtual transactions.** The location and classification (e.g., business, end consumer, tax-exempt) of the buyer and seller, the location where benefit is derived, and contemporaneous documentation of transaction specifics are important data points in determining appropriate taxation results and requirements. This is not always easy to track in a virtual world.

5. **Update software.** Many ERP (enterprise resource planning) systems are not set up to capture, track, and report the granular information necessary to determine appropriate taxation, report required compliance completely and accurately, and report transactions in an automated and systematic fashion.

5 actions to take now

1. **Substance and form.** Taxpayers should make sure terms and conditions of sale and external communication clearly outline what is being bought and sold. There are different tax consequences depending on whether the item is a service, license, right, property, or other identified asset. Tax departments and business development teams need to work closely together to evaluate consequences of the customer agreement.

2. **Understand currency and payment methods for transactions** . Digital assets and in-platform purchases rely heavily on cryptocurrency wallets. The guidance is not always clear or consistent on the taxation of the use, transfer, and sale of different cryptocurrencies. Taxpayers should understand the financial aspects of transactions to evaluate potential tax consequences.

3. **Evaluate location of value creation.** Taxpayers should evaluate and understand where value is created as part of the business model and supply chain. Intercompany agreements should be executed and payments should be made to reimburse for such value. The payments may cross tax jurisdictions, each of which may have various consequences and incentives. Tax departments should work closely with business development to understand bundled transactions and map tax results to different models.

4. **Analyze guidance.** Once new business models and transactions are identified, taxpayers should analyze guidance in each relevant jurisdiction to determine taxability. Each jurisdiction's taxation – down to the level of individual cities -- may be unique. Granular considerations such as location of benefits derived and location of shipment or services performed are critical in order to analyze the potential tax implications and considerations.

5. **Identify and remediate ERP system gaps.** Taxpayers should identify data and reporting requirements for tax computations and compliance. Once requirements are understood, enterprises should evaluate gaps in data and remediate ERP system data needs. This is one of the most important steps in planning any business model change, given that changes to ERP systems after implementation can be extremely costly.

TMT + Tax series

Tax planning for emerging trends

Digital trends are impacting every industry. Regardless of vertical, every company is now a tech company. Whether you're modernizing IT, moving to the cloud, exploring blockchain, or expanding into the metaverse, technology creates exciting opportunities, and raises critical questions. Technological advances are outpacing guidance from regulators and tax authorities, and challenge even the most advanced companies. Deloitte's TMT + Tax series applies a tax lens to emerging trends to help you identify potential benefits as technologies evolve, while preparing for tax and regulatory developments.

Emerging trends

- SaaS and XaaS
- Digital Platform Companies (DPCs)
- Metaverse and shoppable media
- Semiconductor and digital infrastructure
- Blockchain and digital assets

Business imperatives

- Anticipate marketplace and supply chain shifts
- Know your products
- Know your customers
- Keep up with evolving guidance and compliance requirements
- Document the right data elements at the right level of granularity

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