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TAXATION OF CRYPTOCURRENCY IN INDIA: THE FUTURE FINANCE

Ms. Meher Sachdeva*

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ABSTRACT

As the global economy becomes increasingly digitized, cryptocurrencies have emerged as a new and innovative form of financial transaction. However, the Indian government has been hesitant to implement this technology, taking a wait-and-see approach. This article investigates the taxation of cryptocurrencies in India and proposes a regulatory framework for their use. India's current policy is mainly observational, with no clear regulations for regulating cryptocurrencies. This has resulted in confusion among consumers and investors, those who don't know how their investments will be taxed. Nevertheless, a regulatory framework must be established to ensure that these transactions are appropriately monitored and taxed, given the exponential growth in cryptocurrency usage. Depending on how long they are held, cryptocurrencies would be subject to taxation under our proposed framework. If the virtual currency is held for a brief period of time, it will be taxed as a speculative asset. Alternatively, if the cryptocurrency is held for an extended period of time, it will be considered a long-term investment and subject to capital gains tax. Moreover, we recommend that cryptocurrency exchanges and trading platforms be subject to the same regulatory requirements as conventional financial institutions. This would include Know Your Customer (KYC) and Anti-Money Laundering (AML) regulations to prevent fraudulent activity and protect investors. Finally, we propose the establishment of a new government agency to supervise cryptocurrency regulation. This organization would be responsible for issuing licenses to cryptocurrency exchanges and trading platforms and monitoring their activities to assure regulatory

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compliance. In summation, cryptocurrency adoption in India presents both opportunities and obstacles. Cryptocurrencies have the potential to revolutionize the financial industry, but their use must be properly regulated to prevent fraud and protect investors. Our proposed framework offers the Indian government a starting point for developing a comprehensive regulatory system that encourages innovation while protecting the interests of all stakeholders.

Keywords - *Digitalization, Cryptocurrency, Regulatory framework, Finance, Bitcoin*

I. INTRODUCTION

Cryptocurrency, which is created and managed using advanced cryptographic techniques, has become a reality with the creation of Bitcoin in 2009.[1] Bitcoin is unique in that it is not subject to censorship or regulation, but this also means that there is no central authority to ensure that transactions proceed smoothly or to support its value.[2]

One important consideration when it comes to Bitcoin is tax collection.[3] Given the legal uncertainties surrounding Bitcoin, it is important to monitor how Bitcoin retailers deal with the taxation of Bitcoin transactions.[4] When we talk about "business," we are referring to an occupation, business, or business activity. According to Article 246 of the Indian Constitution, Parliament has the same authority as the individual state legislatures to impose taxes.[5] In 2016, Parliament amended Article 246-A, which gives Parliament the power to establish rules governing interstate exchange and commerce, including those related to GST.[6]

Schedule VII details the areas in which Parliament and state governments have the authority to impose fees.[7] When it comes to digital currency transactions, including those involving Bitcoin, there are two angles to consider: pay and usage, or revenue and spending. The

1 Krivtsov, Artem I. "Taxation of Digital Financial Assets." *Growth Poles of the Global Economy: Emergence, Changes and Future Perspectives* (2020): 1231-1239.

2 Prarthna Nachappa, Crypto-Regulation in India: Necessary Evil?, 2 Lexforti Legal J. 115 (2021).

3 Id.

4 Id.

5 Shukla, Varun, Manoj Kumar Misra, and Atul Chaturvedi. "Journey of cryptocurrency in India in view of Financial Budget 2022-23." *arXiv preprint arXiv:2203.12606* (2022).

6 Dhoot, Vrinda. "Cryptocurrency as a Revolution." *Supremo Amicus* 30 (2022): 531.

7 The Constitution of India, 1950, Schedule VII, List III, Concurrent List.

applicability of various legislation, including the Income Tax Act, 1961, the Central Goods and Services Tax Act, 2017, and others, depends on the nature of the exchange and the parties involved.

Therefore, the emergence of cryptocurrency like Bitcoin has raised several legal and regulatory questions, including those related to taxation.[8] As such, it is important for retailers and individuals involved in Bitcoin transactions to understand the relevant legislation and to comply with tax regulations.[9] Ultimately, the development of a clear regulatory framework for digital currency will be necessary to ensure the continued growth and legitimacy of this emerging field.

II. THE POSITION OF INDIA TOWARDS CYRPTOCURRENCY

India's position towards cryptocurrencies has been ambiguous, with no clear policy shift from the government. However, a new body of law is looming, which could potentially put an end to many cryptocurrency trading platforms in India. The Central Economic Intelligence Bureau (CEIB), a department of the Ministry of Finance, has submitted a proposal to the Central Board of Indirect Taxes and Customs (CBIC), which serves as a think tank for the Ministry of Finance. The proposal was submitted to study the effects of the Goods and Services Tax (GST) on cryptocurrency exchanges in India.

The CEIB has requested that Bitcoin be officially recognized as an asset by the Indian government, and all Bitcoin transactions within the country will now be subject to GST tax. This development is not entirely surprising, as the lack of regulation of cryptocurrencies has been a source of concern for authorities in India for some time. Bitcoin has been linked to black markets, including money laundering and illegal gambling. The Indian government's approach towards cryptocurrencies has been cautious and somewhat negative.[10] The Reserve Bank of India (RBI) had banned banks from providing services to cryptocurrency exchanges, which was subsequently overturned by the Supreme Court. However, the RBI has expressed concern over the risks associated with cryptocurrencies and their impact on financial stability.[11]

8 Singh, Arvind Kumar, and Karan Veer Singh. "Cryptocurrency in India-its effect and future on economy with special reference to bitcoin." *International Journal of Research in Economics and Social Sciences (IJRESS)* 8.3 (2018): 115-126.

9 Jani, Shailak. "The growth of cryptocurrency in India: Its challenges & potential impacts on legislation." *Research gate publication* (2018).

10 Thakur, Kumar Krishnan, and G. G. Banik. "Cryptocurrency: Its risks and gains and the way ahead." *IOSR Journal of Economics and Finance* 9.2 (2018): 38-42.

11 Pradeep Thakur, Govt weighs imposing 18% GST on bitcoin trade, The Times of India.

India's Ministry of Finance has been examining the possibility of introducing a regulatory framework for cryptocurrencies since 2017. In the absence of a clear policy, cryptocurrency exchanges have been operating in a grey area, with many facing difficulties in opening bank accounts and securing funding. The lack of regulatory clarity has also hindered investment in the sector.[12] The CEIB's proposal is a step towards bringing cryptocurrencies under the regulatory framework, which could potentially reduce the risks associated with their usage. However, there are concerns about the impact of the proposed law on the cryptocurrency sector in India. The law could potentially stifle innovation and lead to the closure of many cryptocurrency trading platforms.[13]

III. NAVIGATING THE CHALLENGES OF CRYPTOCURRENCY TRADING IN INDIA: LEGALIZATION, TAXATION, AND RECOGNITION

It is worth noting that after a two-year moratorium, the Indian Supreme Court finally allowed the Reserve Bank of India (RBI) to resume operations related to cryptocurrency trading. Since then, institutional traders such as banks and financial institutions can once again engage in cryptocurrency trading, and business has picked up significantly. This marks a change from the Indian government's extreme stance against Bitcoin and other cryptocurrencies in the past, including the possibility of outlawing all transactions.[14]

However, despite the legalization of cryptocurrency trading in India, there are still significant challenges that the industry faces. For example, some cryptocurrency exchanges, including Bitcoin exchanges, would incur additional costs if trading were taxed as GST. Additionally, the lack of clear standards from the RBI makes it difficult for cryptocurrency exchanges to secure funding from financial institutions, as noted by industry expert Praveen Kumar in a letter to the RBI.

Furthermore, there is currently no clear guidance on how internet-based income in the form of digital currency should be reported in the Income Tax Return (ITR), leaving many taxpayers unsure of what to report.[15] This confusion extends to calculating returns

12 Irfan, Syed Bilal. "Opportunities and Challenges of Cryptocurrencies in India-A Study." *International Journal of Research and Analytical Reviews* (2022).

13 Ahuja, Ms Priya. "Cryptocurrency: A New Millennium Currency (Problem and Prospects in India)."

14 Shukla, Varun, Manoj Kumar Misra, and Atul Chaturvedi. "Journey of cryptocurrency in India in view of Financial Budget 2022-23." (2022).

15 Gotety, Anirudh. "The Future of Cryptocurrency Regulation in India." *Banking LJ* 136 (2019): 481.

on investments in virtual currencies, as there are no clear guidelines for the tax treatment of gains and benefits from holding cryptocurrency. Whether cryptocurrency is treated as money or property will affect its tax treatment, with gains from digital currencies potentially taxed as business income if the purpose of acquisition was to expand capital or make a profit through trading or mining.[16]

It is also important to note that the RBI does not currently recognize digital forms of money as cash, so they are not recognized as money under India's yearly spending regulation.[17] Instead, they will be treated as property for the purposes of an individual assessment, with the suggested costs being comparable to those incurred if one owned any other type of property. This lack of recognition as cash affects the use of cryptocurrency for transactions involving the transfer of goods or the purchase of government services.[18]

IV. INDIA'S COMPLEX RELATIONSHIP WITH CRYPTOCURRENCY: FROM BAN TO HOPE

The Indian government has had a tumultuous relationship with cryptocurrency over the years. In 2018, the government expressed its desire to put an end to the use of bitcoin and other virtual monetary forms in India.[19] At the same time, Facebook announced a policy change to prevent notifications about financial things and organizations associated with deceiving or interesting limited time practices such as early coin commitments and cryptographic cash.

In April 2018, the RBI prohibited banking institutions from providing services to anyone controlling virtual or advanced financial rules, in response to a series of frauds and scams that surfaced in the wake of 2016's demonetization move. This move led to falling exchange volumes, which affected the crypto market in India.

However, in March 2020, a three-judge seat of the Supreme Court reversed the public bank boycott, giving hope to crypto currency traders. The Supreme Court stated that the RBI had not implemented any observational check that virtual or cryptographic sorts of money that have adversely affected the financial zone or other controlled substances. The

16 Malusare, Lalita Babulal. "Crypto Currency in India: A study of Concept and Legal aspect of Crypto currency in India." *Commerce & Management*: 139.

17 Babu, P. Venkaiah, et al. "Taxation Of Crypto Currency and Virtual Digital Assets In India: A Critical Analysis." *Specialusis Ugdymas* 1.43 (2022): 1713-1717.

18 Shukla, Shubhi, and Rohitkumar Raut. "Taxation on Cryptocurrency: A Global Perspective." *Legal Spectrum J.* 1 (2021): 1.

19 Keshav Batheja & Param Goel, Cryptocurrency in India, 1 Jus Corpus L.J. 98 (2021).

court further held that "RBI will need to demonstrate a connection to the harm that their controlled substances have caused. Whatever the case may be, however, there is none." This judgment was seen as a landmark victory for the crypto industry in India.[20]

Following the RBI's decision to eliminate the ban on the usage of digital currencies, India saw the advent of new, more advanced cash trading stages and exchange markets. Many international cryptocurrency exchanges have also established operations in India. Despite government efforts to control them, interest in and demand for automated financial principles have consistently grown in India.[21]

India's improving internet infrastructure is likely to contribute to a surge in the popularity of bitcoins in the country.[22] The growing use of mobile devices and increased internet penetration has the potential to make India one of the largest markets for cryptocurrency. The ease of access to digital assets coupled with the lack of clear regulations has made India an attractive destination for cryptocurrency investors.

However, the lack of regulatory clarity has also led to confusion regarding taxation policies for cryptocurrency. The Income Tax Act mandates an individual's obligation to file an Income Tax Return (ITR) revealing all profits if the individual's annual salary is more than Rs 2.5 lakh or if the individual has received any instalment on which duty was deducted at source (TD). However, there is no guidance on how internet-based income in the form of digital money should be reported in the ITR, leaving taxpayers unsure of what to report.

The treatment of cryptocurrency as money or property will affect the tax treatment of gains and benefits from holding cryptocurrency. Cryptocurrency money is typically used for transactions involving the transfer of goods or the purchase of government services. However, the Reserve Bank of India (RBI) does not currently recognize digital forms of money as cash, hence it is not recognized as money under India's yearly spending regulation. As such, it will be treated as property for the purposes of one's individual assessment, and the suggested costs will be comparable to those one would incur if they owned any other type of property. Gains from digital currencies can be taxed as business income if the equivalent was gained for the purpose of making a profit through trading or mining, or if the purpose of acquiring the equivalent was to expand one's capital. The lack of clear guidelines for taxation policies creates uncertainty for cryptocurrency traders and investors in India.

20 Id.

21 Shukla, Varun, Manoj Kumar Misra, and Atul Chaturvedi. "Journey of cryptocurrency in India in view of Financial Budget 2022-23." (2022).

22 Ahuja, Ms Priya. "Cryptocurrency: A New Millennium Currency (Problem and Prospects in India)."

V. UNPACKING INDIA'S CRYPTOCURRENCY TAXATION: GOODS OR CURRENCY?

Article 246 of India's constitution gives Parliament and State Legislatures the authority to levy taxes and pass legislation pertaining to the subjects included in Schedule VII.[23] According to Article 265, only those with the proper legal power may levy and collect taxes. Due to the lack of clarity surrounding cryptocurrency legislation, this study attempts to examine the taxation of cryptocurrencies through the lens of the two most often used approaches today: goods and currency. Bitcoin is subject to income tax in the same way that other currencies are when they are bought and sold commercially.[24] There are two options for enforcing income tax. First, a person's bitcoin trading profits can be taxed like any other business income, and second, a bitcoin trader's profits on the sale or purchase of bitcoins as goods can be taxed like any other capital gain. The Income Tax Act of 1981 governs the process of determining a person's taxable income in India. Gains in income are possible whether or not they are monetary in nature.

VI. DIRECT TAX REGIME

Under India's direct tax framework, cryptocurrency is regulated by the Income Tax Act. The current legal climate provides no clarity on how cryptocurrencies should be taxed, and the Income Tax Administration has not set a disclosure requirement for cryptocurrency earnings. Treatment under the head "capital gains"

According to Section 2(14) of the IT Act, "property of any type possessed by the assessee whether or not associated with his business or profession"[25] constitutes a capital asset. All property not specifically excluded by the Act is considered a "capital asset" under this definition.[26] For this reason, any profits made from selling cryptocurrencies should be reported as capital gains if the funds would be used for further investment.

Taxability under "Profit or Gain from a Business or Profession":

When cryptocurrency is held in furtherance of business activity, issues occurring while recognising it as capital gains do not exist, hence the tax treatment of cryptocurrencies

23 Singh, Muskaan. "Taxability of Cryptocurrency in India." *Issue 5 Int'l JL Mgmt. & Human.* 5 (2022): 1498.

24 Sharma, Pradyumn Amit. "Legality of Crypto-Assets in India." *Issue 4 Int'l JL Mgmt. & Human.* 3 (2020): 985.

25 Section 2(14), Income Tax Act.

26 Chetna Alagh & Vibhuti Sharma, Taxation of Cryptocurrency in India, 1 Jus Corpus L.J. 187 (2020).

held as'stock in trade' does not face severe obstacles. Businesses of any kind are covered by the broad definition of "trade, commerce, or manufacture or any adventure or concern of such type" found in Section 2(13) of the IT Act. In addition, Section 28 of the IT Act applies to any gains made through a "continuous business activity,"[27] such as trading cryptocurrency. Even if the gains are not paid out in cash, they are nevertheless subject to taxation if they exceed a certain threshold. The IT Act's Sections 30–43D indicate that any expense incurred for this reason—including the purchase of computing power as a capital asset—should be deductible.

VII. INDIRECT TAX IMPLICATION ON CRYPTOCURRENCY

On 1 July 2017, the Central Goods and Service Tax was implemented throughout India. Almost all other indirect taxes have been absorbed by GST, with the exception of few state taxes. Sales of goods and services between states are subject to GST. So, it becomes necessary to classify cryptocurrencies as commodities. The Supreme Court has ruled that products are broad and include a variety of flexible properties, whether tangible or immaterial. Services are defined in section 2(102) of the Central Goods and Services Tax Act as everything other than products, money, and securities, and also include actions related to the usage of money or its conversion, for consideration, from one form, currency, or denomination to another.

Bitcoin purchases will soon be subject to a goods and services tax (GST) of 18%, as proposed by the federal government. Several concerns were addressed following the introduction of GST, such as the fact that GST is applicable to the provision of both commodities and services and, drawing from the definition of services, the possibility that GST may be applied to bitcoin. Assuming all involved parties are located in India GST on the value of goods and also on fee charged would be triggered by any exchange, including the exchange of virtual currencies for cash or for which a separate commission is imposed. When an intermediary is involved, the transaction is actually two independent transactions. The first exchange takes place between the provider and the middleman, while the second takes place directly between the recipient and the provider. This method of taxation has many flaws, including the fact that it double-taxes the transaction by charging sales tax on the supply and again on the consideration. Businesses dealing in digital forms of money suffer a huge loss as their purchasing power is drastically reduced as a result of the increased frequency with which taxes are collected. If both the supply and the recipient are located outside of India, i.e., in international trade, the situation becomes more problematic.

27 Section 28, Income Tax Act.

VIII. EFFECT OF COVID-19 ON CRYPTOCURRENCIES

Indian regulators have previously shown clear signs of distress with Bitcoin, but the recent rise in Bitcoin's value thanks to the massive COVID-19 international liquidity poured by national banks has helped alleviate some of their problems. Indian regulators have previously shown clear signs of distress with Bitcoin, but the recent rise in Bitcoin's value thanks to the massive COVID-19 international liquidity poured by national banks has helped alleviate some of their problems.[28]

There is evidence to suggest that cryptographic money has emerged as a hedge against the COVID-19 threat.[29] Speculators in India reconnected their premium in virtual currency forms as a result of the shutdown, presumably in the hopes of drawing the attention of the personal duty office back to crypto financial professionals.[30]

Even though cryptocurrencies are changing at a dizzying pace, the legal standing of cryptographic currencies in India remains murky. The RBI's ban on digital currencies was overturned by the Supreme Court, yet the new regulations are still difficult to understand. Although transactions involving cryptocurrencies are legal in India, the government has made it incredibly difficult for traders to operate. Concerns about money laundering and tax evasion have dominated discussions about digital currency transactions for quite some time. The time has come to recognise the economic potential of the estimated 1.7 million Indians involved in the trading of advanced resources, as well as to enact appropriate legislation for its regulation, provision for purchaser security, and concerns about its utilisation in tax evasion and fear financing.

The Indian government has been on the fence over cryptographic currencies, debating whether or not it needs to regulate virtual currencies. The government is committed to blockchain research and development, but it has opposed widespread use of digital currency because of the impossibility of recouping taxes in the event that the unit of record for a given exchange were to switch from rupees to some cryptographic form of money. So, if the government wants to collect taxes on blockchain transactions, it needs to recognise cryptocurrency, and not just the INR, as a unit for recording transactions.

28 Ashish, Vishrut, and Sabiha Fazalbhoy. "Impact of COVID-19 on Investment Education and Behavior in Cryptocurrency and Stock Market: A Study of Indian Undergraduate Students." *Annual Research Journal of SCMS, Pune* 10 (2022): 59-79.

29 Demir, Ender, et al. "The relationship between cryptocurrencies and COVID-19 pandemic." *Eurasian Economic Review* 10 (2020): 349-360.

30 Sahoo, Pradipta Kumar. "COVID-19 pandemic and cryptocurrency markets: an empirical analysis from a linear and nonlinear causal relationship." *Studies in Economics and Finance* (2021).

IX. INCOME TAX IN INDIA VIS-A-VIS OTHER FOREIGN JURISDICTIONS

Over the past decade, Indian cryptocurrency dealers have had their fair share of denials and scepticism regarding the industry of cryptocurrency as a whole. Despite being one of the top developing nations for cryptocurrencies, India lacks a strong legal framework to oversee this $1 trillion market cap sector.[31] However, new laws and regulations on cryptocurrency tax in India were suggested and adopted in the 2022 financial budget. Until 2022, cryptocurrency and virtual assets were not subject to taxes. After the introduction of the bill, India considers cryptocurrency as an important virtual asset which is taxed. From April 1, 2022, income from trading cryptocurrencies or other virtual digital assets has been made subject to a 30% tax and 4% cess under Section 115BBH of the 2022 Budget.[32] From July 1, 2022, the 194S section imposes a 1% Tax at Source on the transfer of cryptocurrency assets if the transactions total is more than $50,000. Private investors, professional traders, and anybody else who transfers digital assets during a given fiscal year are subject to this tax rate.

Additionally, this tax rate is applicable regardless of the investor's source of income and does not distinguish between profits made in the short- or long-term. Over the past two years, the Indian government and Income Tax Department (ITD) have released a tonne of advice regarding cryptocurrencies and any potential tax repercussions of investments. Investors will have to report their earnings from cryptocurrencies and other digital assets as capital gains in 2023 if they are retained as investments or as business income if they are used for trading. ITR-3, not ITR-2, should be used by those with business income.[33] Penalties would be issued elucidated under sections 271C and 276B of the Income tax act. The Income Tax Act's Section 2(47A) defines the term "Virtual Digital Assets" and cryptocurrency is also considered a part of it.

Cryptocurrency taxation in the United States

Cryptocurrency taxation in the USA is all managed by the Internal Review Services (IRS). According to the IRS, digital assets are the representations that are kept on a distributed ledger which is encrypted. [34] Since 2014, The IRS recognises cryptocurrencies as property for federal income tax purposes in accordance with its advice, which implies that gains or

31 "Crypto Tax in India- An-In Depth Guide on crypto Tax laws" Koin%.

32 Section 115BBH, Finance Act 2022.

33 Michelle legge " Crypto Tax India: Here's how much you'll pay in 2023." Koinly Blog Publications.

34 "Internal Revenue Services" Tax Foundation.

losses from sales and exchanges are subject to tax.[35] Later as per 2021 Notice Cryptocurrency transactions trigger capital gains tax, and the character of the gain depends on the holding period. Short-term gains, for holdings of less than a year, are taxed at ordinary income tax rates, while long-term gains are subject to lower capital gains tax rates.[36] The IRS released a Chief Counsel Advice in January 2023 outlining the circumstances under which taxpayers can and cannot deduct losses from cryptocurrencies. According to the memorandum, taxpayers are not allowed to deduct their personal investments in cryptocurrencies when their value has significantly decreased but is still higher than zero and they are still traded on at least one exchange. The fundamental premise is that the taxpayer did not dispose of, sell, exchange, or abandon the cryptocurrency tokens. However, the loss is recognised as a deduction for the taxable year in which it occurred provided the decline in cryptocurrency value is revealed by a completed transaction, which establishes the amount of loss. [37] A deduction may also be claimed under Section 165 if the taxpayer offers proof that the cryptocurrency tokens are useless or abandoned. In the fast forward country like USA, The Federal Revenue Service (IRS) mandates that all cryptocurrency transactions be taxed and recorded.[38] It is mandatory that forms 1099-B are required for cryptocurrency owners to report transactions. If they accept cryptocurrencies as payment for services, they must utilise Form 1099-MISC. Similarly, NFTs must submit a Form 1099-NEC to the IRS in order to comply with their tax obligations. It is mandated by the IRS that all cryptocurrency transactions must be reported to the IRS on tax forms, and any earnings from these transactions must be taxed.[39] The specific tax repercussions of cryptocurrency operations rely on a number of factors, including the nature of the transaction, the duration of the holding period, and the cost basis of the cryptocurrency.

In the US, tax rates on cryptocurrency gains are determined by the tax bracket of the person. A unique tax rate is applied to each of the income levels in the tax brackets which increases as per the individuals earning.

Cryptocurrency taxation in the United Kingdom

Taxation on cryptocurrency depends on the capital gains. The profit made when one sells or "dispose of" an asset that has gained in value—in this case, the cryptocurrencies—is subject to capital gains tax (CGT). [40] You are only required to pay taxes on the gain you make, not

35 Internal revenue service. (2014). Notice 2014-2021

36 Internal revenue service. (2021). Virtual Currencies.

37 "Cryptocurrency and NFT Tax Considerations based on Recent IRS Strategy Guidance." STOUT.

38 "Crypto Taxes USA: The absolute Guide for 2023 (IRS Rules)." Bockpit.

39 *id.*

40 Crypto Tax UK : 2023 Guide (HMRC Rules)

the total amount you get. In the United Kingdom, the government offers an annual tax-free allowance which is also called the annual or Yearly excempt amount. Crypto-asset-related income is taxable under the income tax law.[41] All of these situations, whether payment is received in Bitcoin for the service rendered or earned BTC through mining or staking—are all taxable. The revenue declared should be equal the value of the cryptocurrency in pounds at the moment you received it if you use cryptocurrency as payment for products or services.

X. CONCLUSION AND RECOMMENDATIONS

Cryptocurrencies are becoming increasingly popular as an investment option in India. The Reserve Bank of India (RBI) has not recognised bitcoin or any other cryptocurrency as legal tender, but investors in cryptocurrencies do not avoid paying taxes on any gains they make.[42] The Economic Times reports that in order to better manage taxes on payments, investments, and aid, the Indian government plans to categorise actual cash differently depending on their use.[43]

Cryptocurrency trading site Mudrex was founded and is led by Edul Patel of San Francisco. Patel has stated that there are numerous methods to make money with cryptocurrencies, including mining, farming, farming, and ordinary buying and selling. Business revenue can include gains from trading digital assets, while other income could be classified as "revenue from other sources." Adding new regulations or changes, Patel argued, would place an undue strain on taxpayers.[44]

Bitcoin can be "mined" by computers by having them solve difficult problems for rewards in bitcoin. Staking digital currencies also uses token payments to verify compliance with protocol rules.[45] In the Ethereum ecosystem, crop farming typically comprises the lending of crypto assets in exchange for payment. The Indian government has not yet decided whether or not to establish a regulatory framework for tangible assets, although it has incorporated certain transparency rules. Financial institutions in India are now required, as of March, to report their gains or losses from cryptocurrency trading, as well as the total value of cryptocurrency held. On April 1 of this year, new provisions of the Companies Act

41 *Id* .

42 Chaudhari, Samarth. "Taxation as a form of regulating cryptocurrencies in India." (2019).

43 Muskaan Singh, Taxability of Cryptocurrency in India, 5 INT'l J.L. MGMT. & HUMAN. 1498 (2022).

44 *id*

45 Sahoo, Pradipta Kumar. "Bitcoin as digital money: Its growth and future sustainability." *Theoretical & Applied Economics* 24.4 (2017).

went into effect. "the earnings resulting from the transfer of crypto / assets are less taxed under the head of revenue, depending on the type of similar holding,"[46] the then-Finance Minister Anurag Singh Thakur explained.

Taking stock of the investments' nature is essential. Bitcoin can be viewed as either a financial asset or an income stream for a company. A digital token acquired with the intent of resale or further investment is taxed as a capital asset. These investments can generate substantial long-term or short-term gains, respectively, depending on how long they are held. Long-term financial benefits, such as those realised after holding bitcoin for 36 months or longer, are taxed at a lower rate than shorter-term capital gains. Harsh Bhuta, a partner at the Bhuta Shah & Co. accounting firm, says that while long-term capital profits are taxed at a lower rate of 20% on the index income, these profits are subject to the taxpayer's applicable slab rates. Bhuta maintains that "greater clarity" is needed about the administration of various forms of revenue and profit.[47]

After the profit margin is applied, the investor can cut the tax rate below the long-term level to account for inflation. The annual inflation rate at which these assessments are made is reported by the Central Tax Board. If a trader engages in cryptocurrency operations on a regular basis, however, such profits will be treated as business income.

Disclosure may become mandatory under India's proposed cryptocurrency law. Although bitcoin profits are taxed in many countries, investors in India face complications due to the country's icy reception of a physical currency. According to blockchain data firm Chainalysis,[48] Indians have deposited nearly $ 6.6 billion (Rs49,189 crore) in cryptocurrencies since May this year, compared to about $ 923 million until April 2020. A growing number of Indians are acquiring access to digital tokens by purchasing and selling on overseas platforms, which may offer superior functionality and customer service than those available in India. One of these businesses, however, may enter the domestic crypto trade if Indian authorities begin to show more enthusiasm for the crypto token market.

Reports in July suggested that to level the playing field between domestic and international cryptocurrency trade, the Indian government would implement a Property and Services (GST) levy of 18% on global cryptocurrency transactions. It has been reported that India is considering imposing a 2% tax on the trade of foreign currencies. Similar to stock

46 *id*

47 Banwari, Vijeta. "Cryptocurrency scope in India." *International Research Journal of Management Sociology & Humanities* 8.12 (2017): 82-92.

48 *id*

brokerages, the Indian cryptocurrency exchange implements a Goods and Services Tax (GST) trading cost of 18% for all users. Investors are on edge because it is possible that the first cryptocurrency law in India may be adopted during the winter session of parliament. Currently, crypto has the ability to fortify the foundation of India's digital infrastructure and guarantee the safety of all digital transactions. Taxing bitcoin transactions is a necessary and welcome development at this time, rather than a hindrance. It's a two-way street that allows governments to track cryptocurrency transactions legally and put the tax money they receive to good use. There is also widespread support for the view that taxing cryptocurrencies should be a governmental priority since it can help to foster an atmosphere where investors' funds are protected and trading risks are minimised.

Recent highs in Bitcoin's and other cryptocurrencies' volatility have made them attractive to those seeking rapid returns on their capital. Bitcoin's multiplicative value attracted investors, who drove up demand, which pushed up the price even further. Despite their apparent promise, prospective investors should proceed with caution. Several instances of counterfeit cryptocurrency have been reported over the past couple of years. If you don't understand cryptocurrencies inside and out, it's best not to invest too much in them. Long-term investments in such digital currencies can help to even out the risk/reward of an investor's portfolio, while short-term trading can yield returns of 10–40%. There will always be sceptics, but time will likely increase the number of people who put their trust in Bitcoin and other decentralised currencies. The transfer of authority from huge institutions to the general populace might begin with decentralisation. Keep in mind that the government's current resistance to cryptocurrency regulation is expected to change very soon, and the digital currency sector will be subject to heavy oversight. Gains from trading bitcoins are likely to be taxed by government revenue agencies. While some analysts see Bitcoin and other digital currencies as a bubble that could pop at any time, leaving investors with nothing, others see them as the wave of the future in terms of currency and trade.[49]

As things stand, crypto can bolster India's advanced framework and guarantee all transactions on the digital network. In light of the current situation, charging fees on exchanges that deal in digital currency should be seen as a welcoming development rather than a restriction. Following this path and using crypto exchanges legitimately to generate revenue for the government's productive use is a two-way street. Using fees on cryptocurrencies as a matter of strategy has also been widely endorsed as a means of assuring buyers and sellers of the safety of their funds and reducing the inherent risks of trading. Tax regulations should be updated to discourage far-sighted strategies. Bitcoin's success as a means of exchange

49 Chaudhari, Samarth. "Taxation as a form of regulating cryptocurrencies in India." (2019).

is progressive and encouraging, and as such, it merits serious consideration. Now more than ever, it's crucial to set in stone strict regulations and taxation policies to guarantee safety. Indian law, rather than focusing on a boycott, should ensure that sufficient levels of confirmation are ready to decide a crypto-transfer tax evasion or psychological oppression funding risk. Assuming, however, that reasonable legislation is drafted for digital money, its guidelines will mandate that businesses with the digital sharp unit monitor these transactions. Bitcoin and other digital currencies will gain more widespread acceptance in India once the associated fears could be properly understood and dispelled.