



TAXATION OF CRYPTOCURRENCY IN INDIA

MAY 2022



WHAT ARE VIRTUAL DIGITAL ASSETS?

The Finance Act, 2022 introduced a definition for 'Virtual Digital Assets' (VDAs), which includes Virtual Currencies, under the Income-tax Act, 1961 with effect from 1st April, 2022.

As per the new definition, a VDA is any information / code / number / token (not being Indian or foreign currency), generated through cryptographic means & providing a digital representation of value, exchanged with or without consideration, with the promise or representation of inherent value, or which functions as a store of value or a unit of account, and can be transferred, stored or traded electronically. This would include NFTs and any other similar token.



“ The future of
money is
digital currency ”

Bill Gates



\$39,507.59

**Price of one Bitcoin as
on 29 April 2022**

Source: CoinMarketCap.com

89 million

**Number of verified
users on Coinbase,
a cryptocurrency
exchange platform**

Source :CoinBase

\$50,000

**Expected value of one
Bitcoin towards end of
2022**

Source: AnalyticsInsight.net

19,190

**Different types of cryptocurrencies traded
publicly worldwide**

Source: CoinMarketCap.com

\$2.1 trillion

**Total value of all cryptocurrencies as on 08th April
2022**

Source: CoinMarketCap.com

TIMELINE OF REGULATIONS AND LAWS

2018: RBI issued a Ring-Fencing circular on 5th April 2018 directing all entities regulated by it to stop dealing and providing services in relation to in virtual currencies.

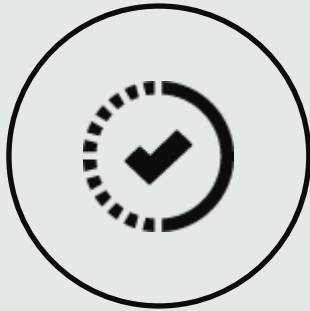
2020: The Ring-Fencing Circular was set aside by the Supreme Court on 4th March 2020 on the grounds of proportionality.

Present Scenario: Although, dealing in Crypto has been permitted by the Indian Government, no special legislation has been enacted to regulate such dealings. The government has, however, proposed to introduce the Cryptocurrency and Regulation of Official Digital Currency Bill, 2021. The text of the proposed bill has not yet been made available in the public domain.



INCOME GENERATION THROUGH CRYPTOCURRENCY

There are three ways through which income through cryptocurrencies can be earned:



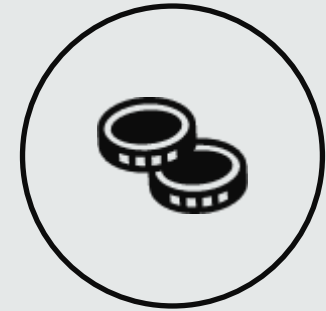
Mining

- Mining is an activity where an individual (called the “miner”), through computer, solves difficult equations under blockchain technology.
- As a reward, the miner gets self-generated bitcoins.



Exchange

- There are exchanges established at several places in India where people can buy / sell bitcoins.
- Sale of bitcoin could result in gains on sale



Consideration

- Cryptocurrencies could be used for the purpose of buying goods/services. In such case, the seller receives consideration in the form of bitcoins instead of real currency

We have assumed Bitcoin as crypto to analyze the revenue generation and probable tax impact.

TAXATION OF CRYPTOCURRENCY

The probable tax impact on income earned in the form of cryptocurrencies through various routes:

EXCHANGE	MINING	CONSIDERATION
<p>Crypto Exchanges earn income in form of transaction fees for the completion of a transaction effectively, the GST Authorities treat the same as a commission income which is taxable at 18%.</p> <p>Income tax at the rate of 30% shall be calculated on income from the transfer of VDAs.</p> <p>No deduction in respect of any expenditure (other than the cost of acquisition of the VDA) or allowance or set-off of any loss will be allowed while computing the income from the transfer of a VDA.</p> <p>This amendment will take effect from 1st April, 2023 and will, accordingly, apply in relation to the assessment year 2023-2024 and subsequent assessment years.</p>	<p>Infrastructure costs incurred in the mining of VDA will not be treated as the cost of acquisition as the same will be in the nature of capital expenditure, and thus shall not be deducted while computing the income from the transfer of a VDA.</p> <p>This amendment will take effect from 1st April 2023 and will, accordingly, apply in relation to the assessment year 2023-2024. and subsequent assessment years.</p>	<p>TDS at 1% of the consideration to be paid by any person responsible for paying such consideration to a resident Indian for transfer of a VDA at the time of credit to the account of the resident Indian payee or at the time of payment by any mode, whichever is earlier. Transaction for which TDS is deducted under this amendment will not be subject to TDS under any other head.</p> <p>In case the payment for such transfer is wholly or partly in kind, such person shall ensure that the tax has been paid in respect of the consideration, before making the payment.</p> <p>This amendment shall come into effect from 1st July, 2022.</p>



DISCLOSURE REQUIREMENTS IN INDIA

W.e.f. 1st April, 2022, it has become mandatory for the Companies, trading and investing in Crypto currency and Virtual Currency, to make the following disclosures in their Financial Statements:

- Profit or loss on transactions involving Crypto currency or Virtual Currency
- Amount of currency held as at the reporting date
- Deposits or advances from any person for the purpose of trading or investing in Crypto Currency/ virtual currency

DISCLAIMER



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