

Crypto Currency: An overview of Bitcoin in India

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Abstract: Nowadays, there is a vast and fast development in crypto currencies. Bitcoin is one of them which are most popular and known as first decentralized currency. The legal status of Bitcoin varies substantially from country to country and is still undefined or changing in many of them. This paper mainly covers working with Bitcoin in India. Bitcoin transactions are anonymous and most secure but on the other hand they fail to protect consumers because of lack of regulations. Also the use of crypto currencies is very less because of lack of its awareness and vendors. This paper also covers the legality and regulatory framework with respect to Bitcoins in India. As a virtual currency and peer-to-peer payment system, Bitcoin may signal future challenges to state oversight and financial powers.

Keywords: Crypto currency, Blockchain system, KYC.

Introduction: Bitcoin is a crypto currency and worldwide payment system. It is the first decentralized digital currency not backed by the monetary authority. Its conception is peer-to-peer and transactions take place between users directly, without an intermediary. These transactions are verified by network nodes through the use of cryptography and recorded in a public distributed ledger called a blockchain. Bitcoin was invented by an unknown person or group of people under the name **Satoshi Nakamoto** and released as open-source software in 2009. Bitcoins are created as a reward for a process known as mining. They can be exchanged for other currencies, products, and services. As of February 2015, over 100,000 merchants and vendors accepted bitcoin as payment. Research produced by the **University of Cambridge** estimates that in 2017, there are 2.9 to 5.8 million unique users using a crypto currency wallet, most of them using bitcoin.

The question whether bitcoin is a currency or not is still disputed. Bitcoins have three useful qualities in a currency, according to the economist, they are "hard to earn, limited in supply and easy to verify". Economists define money as a store of value, a medium of exchange, and a unit of account and agree that bitcoin has some way to go to meet all these criteria. In India, entrepreneurs based in cities such as Mumbai and Bangalore, are accepting bitcoins at a rapid pace. In fact, India has a Bitcoin community of 50,000 in which around 30,000 people actually own bitcoins. However, after a warning issued by the Reserve Bank of India that called bitcoins volatile and risky, many Bitcoin operators shut down indefinitely. Nonetheless, there are still people in India who are sticking to bitcoins even after the warning because they know that its value is

worth more than the risks. Recently bitcoin operations have resumed in India after the RBI made another announcement.

Legal Aspects of Bitcoin: 1. *KYC norms* In India, KYC (Know Your Customer) norms are set by RBI that requires banks to monitor their customers transactions, keep up-to-date record of their identity. This is not in the case with Bitcoins as its transactions are anonymous in nature. Thus bringing Bitcoin under the current Indian laws can be difficult.

2. *Cross border transfer of Bitcoin* FEMA regulates all inbound and outbound foreign exchange related transactions. Section 3 of FEMA states that no person shall: ‘deal in or transfer any foreign exchange or foreign security to any person not being an authorized person;

a. make any payment to or for the credit of any person resident outside India in any manner;

b. receive otherwise through an authorized person, any payment by order or on behalf of any person resident outside India in any manner; and

c. enter into any financial transaction in India as consideration for or in association with acquisition or creation or transfer of a right to acquire, any asset outside India by any person.’

From the above, it could be argued that purchasing of Bitcoin by a resident Indian from a person resident outside India (where money for purchase of Bitcoin is transmitted through legitimate banking channels) will not be in violation of FEMA. Further, Bitcoin transaction between two residents should also not trigger FEMA and should not therefore be in violation of the same. However, the sale of Bitcoin to a non-resident person (i.e. to a person outside India) by a resident Indian will be in violation of the provisions of FEMA. Further, it can also be regulated by RBI in this condition.

3. *Taxation:* In India the taxation is most complicated thing for common peoples. Tax may be applicable to income or expenditure. If we apply tax to Bitcoin then first thing is to differentiate

Between expenditure and income related to Bitcoin. If tax were levied on Bitcoin then those are applicable to mining of Bitcoin as well as transfer of Bitcoin and with that we need to differentiate whether the Bitcoins are capital or income.

Buy or Sell Bitcoin in India: There are many Bitcoin Exchanges in India where you can buy or sell and even store your Bitcoins. Unocoin, Buycoin, Zebpay, Coinsecure, Local Bitcoins, Bitxoxo are some of them. As Bitcoin is a digital asset and is very volatile in nature, it is always advisable not to buy them in large quantities to avoid volatility risk. Currently, most of the exchanges are not accepting new users registration due to uncertainty in Bitcoins in India.

Most popular Bitcoin Exchanges in India are as follows:

1. Unocoin: Unocoin is India's leading Bitcoin Company. It enables Indians to buy, sell, store, use and accepts Bitcoin. Here one can buy Bitcoins with any bank account through RTGS, NEFT or online banking. But this exchange requires ID verifications and thus not private.
2. Zebpay: Zebpay is a Bitcoin platform and broker based in India. It has Android and i-Phone apps that make it easy to buy Bitcoins with a connected Indian bank account. It offers additional services, such as purchase of mobile airtime and gift vouchers for Bitcoin. Also Zebpay has multiple security features. But similar to Unocoin it also requires ID verification.
3. Coinsecure: Coinsecure is an Indian Bitcoin exchange and trading platform. It offers very low fees at just 0.3% per buy and a number of deposit options; including NEFT, RTGS, IMPS and cash deposit. Is is also not private.
4. Local Bitcoins: It is an escrow service which also helps to match Bitcoin buyers and sellers. The most common method of payment for purchase is cash deposit. However, users may advertise trades for whichever payment method they prefer. Local Bitcoin is a most private and one of the fast and easy exchange for buying Bitcoins.
5. CoinMama: CoinMama allows customers in almost every country to buy Bitcoin with a credit or debit card. They charge an ~8% fee on each purchase. If buying less than \$150 worth of Bitcoins, you won't need to verify your identity. This convenience makes small purchases quick and easy.

Risks Associated with Bitcoins:

- RBI through its press release dated 24th December, 2013 has warned the public about the negative attributes of bitcoins and its usage. It specifically pointed out, that since they are stored digitally, they are exposed to risks such as hacking, attacks, compromises etc.
- Bitcoins are not backed and/or regulated by a centralized agency till date, making them less reliable.
- There is no forum, where a user can possibly reach out for any help or grievance, as a result of which Indian consumers are being exposed to transactional and informative risks.
- Another issue pertains to awareness. Lot of consumers has little or no information regarding risks associated with bitcoins lending them into unwanted trouble under regulations such as anti-money laundering.
- One of the very important attributes of bitcoins is its volatility. Steep changes every second are expected, making investors prone to zero-worth risks.
- Several incidences have occurred stating that bitcoins have been used for illicit and illegal activities around the globe. Reportedly, a recent ransomware attack called WannaCry spread on a large scale basis; the hackers had demanded payment in respect to ransom money in bitcoins. The incidence among others has raised

questions on the viability of the crypto currency. Bitcoins have also been used in Ponzi schemes, resulting in huge loss of money for several investors.

Conclusion: Crypto currency would help in safe and secure transaction of digital money. Bitcoin provides a great platform for promoting digital transactions. This would minimize the threat of damage of hard cash currency and promotes safe transaction. Although every technology has limitations, this digital cryptography may be vulnerable to some digital hacks thus continuous improvement and adaption to technology would help in securing the transaction in future as well.

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