Crypto Currency And Indian Market

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Abstract: Markets these days have become wider for the persons to investment and earn. People are tending towards the share market and market based arbitrary activities. Crypto is a like a new baby in the family. In contrast to traditional currencies, which are issued or regulated by a central authority, crypto currencies use a decentralized process to track transactions and create new units. There is nothing about crypto currencies that makes them a risk-free investment because the value of a crypto currency can vary rapidly and regularly. Block chain technology is a distributed ledger which is decentralized and stores the record of ownership of digital assets. The policies of the government directly affect the market of any country. Therefore, in this paper, the status of crypto in the Indian market and the attitude of the government towards it, has been described. Also, an attempt has been made to imagine the future market on the basis of the present scenario.

Key words: digital money, crypto currency, blockchain, CBDC, regulations, Indian market.

Introduction

Digital money known as crypto currency (or "crypto") is utilized as an alternative payment method or as an investment. The cryptographic methods that enable anyone to buy, sell, or exchange crypto currencies securely without the need for a centralized authority, such as a government or financial institutions, give them their name. For the same reasons that everybody buys in anything, crypto currency investors do the same. They are hoping for a price increase that will result in a profit. Crypto currencies use a decentralized mechanism to track transactions and generate new units instead of having a central body to issue or regulate them. The use of crypto currency has grown among investors everywhere. With the help of technology, digital currencies, like Bitcoin, are gaining an advantageous position over others. It is simple to transfer money using crypto currency without any intervention of banks or other financial institutions. But legal protections are not offered with crypto currency payments and payments are not reversible. The fact is that a government or central bank does not support crypto currencies in any way. You don't have the same protections for your bitcoin that you would have for a bank account if you store it online. The value of a crypto currency can fluctuate wildly and frequently hence there is no aspect of crypto currencies that makes them a risk-free investment and nobody can assure you that your investment will be profitable. (A)

What is Crypto currency and how it works

Digital tokens are crypto currencies. They are a kind of digital money that enables users to send payments online directly to another person. Crypto currencies are only about what consumers are willing to pay for, in the open market; they have no predetermined legislative or intrinsic value. National currencies, in contrast, derive a portion of their value from being recognized by law as legal tender. The most well-known crypto currencies are Bitcoin and Ether, while there are many others. (B)
Owners of crypto currency are not required to have faith in any one governing body because there is no central or federal regulatory body that regulates them. Everyone who is a part of the network has access to information that cannot be changed or altered. Only network users have access to the highly secure data, which is only accessible by them. Shared ownership also entails that all users certify the data's accuracy, making it less likely that data management errors or misunderstandings would occur.

**Block chain**, a distributed public ledger that keeps track of all transactions and is maintained by crypto currency holders, is the technology that underlies crypto currency. Through a process called mining, which uses computer power to solve challenging mathematical puzzles, Bitcoin units are created. Additionally, users can contact brokers to purchase digital currencies, which they can then store and utilize through encrypted wallets. You don't actually own anything if you own a crypto currency. You essentially possess a key that enables you to transfer data or units of measurement from one user to another without the assistance of a reliable third party.  

A lot of cryptocurrencies exist. Some of them consist of Bitcoin, Ethereum, Litecoin, Ripple, Crypto Tokens & Altcoins etc.

**Crypto currency market in India**

The period from 2013 to 2017 can be considered the beginning of the cryptocurrency craze in India. During this time, there were a lot of questions, misunderstandings, and confusions regarding the emergence of crypto currencies in India. The public was warned about crypto currency by RBI in 2013. A committee was framed by the Indian government to examine various crypto currency-related issues and recommend any necessary future steps.

As a result, there was no restriction took place on virtual currencies during this time.

**Banning of Crypto currency and Regulation of Official Digital Currency Bill, 2019:**

The Inter-Ministerial Committee Report included a draft bill that was released on February 28, 2019, and it was a step toward the government's goal of banning virtual currency. The report warned the government against allowing private virtual currencies. The main causes for concern were:

- A sovereign entity does not back the virtual currencies.
- They do not have any intrinsic value.
- Virtual currencies show significant price changes that are generally driven by unrelated factors.
- Illegal transactions may result from a lack of accountability and may even have an effect on India's security and sovereignty.

The bill was however, never got presented before the parliament.

In 2021, The RBI asked banks not to refuse banking services to customers dealing in VCs based on the 2018 Circular in a circular dated May 31, 2021. The RBI recommended platforms to carry out customer due diligence procedures including KYC and AML and guarantee FEMA compliance because there were no regulations in the area. In November 2021, VC investments surpassed the $10 billion threshold. Meetings with stakeholders were held by the Parliamentary Standing Committee on Finance to address concerns about the proposed regulation.

**Taxation on Crypto currencies by the Union Government**

- The transfer of any virtual currency or crypto currency asset will be entitled to a **30% tax** deduction, the Indian government has stated clearly in the **union budget for 2022–2023**.
- In Section 2 of Income Tax Act 1961, a new clause (**47A**) has been inserted to provide an exclusive meaning for "Virtual Digital Asset."
- Crypto currencies are categorized as virtual digital assets in India and are taxable.
- According to Section 115BBH, gains from crypto currency trading are taxed at a rate of **30% (plus 4% cess) and for both short-term and long-term gains**, the tax rate is the same.
From July 1, 2022, Section 194S imposed 1% Tax Deducted at Source (TDS) on transfers of cryptocurrency assets if they exceed 50,000 (or even 10,000 in some cases) in the same financial year. (F), (G), (H)

This decision of government might acknowledge crypto currencies as a legal asset and the trading that goes along with them as a legitimate business. However, income taxes in India are based on assets rather than how they were acquired. Thus, the imposition of tax on crypto currencies does not completely make them legal.

Central Bank Digital Currency

To enter in the industry, but with regulations, RBI decided to launch its own digital currency. Hence The Reserve Bank of India announced the launch of the first pilot for retail digital Rupee (e₹R) also called Central Bank Digital Currency on 01st November 2022. RBI defines the CBDC as the digital form of currency notes issued by a central bank. It is a sovereign or entirely independent currency issued by the central bank (in this case, RBI), in accordance with the country’s monetary policy. Cryptocurrencies like bitcoin and ethereum are 'private' by nature. On the other side, the RBI will issue and manage digital rupee. Eight banks have been chosen by the RBI to participate in the retail pilot program in stages. Four banks—the State Bank of India, ICICI Bank, Yes Bank, and IDFC First Bank—are included in the first phase. Following that, the Bank of Baroda, Union Bank of India, HDFC Bank, and Kotak Mahindra Bank will also join in the retail experiment. (I)

Future Indian Market and Atmosphere for Crypto Currency

Trade of crypto currency is allowed in India but it has not got the status of Legal tender and cannot be used for banking purpose. We should look at what is happening globally. Let’s take the example of gambling. Unorganized gambling is banned in most of the countries in the world and allowed in some countries, so in India a few states have given the legal status to gambling and betting. But if you look at the internet, the internet is banned only in a few country like North Korea and China etc., and allowed in rest of the countries. So what is India is doing? India is also doing what other countries are doing. India always goes with progressive nations, not in a regressive direction. India has been a larger contributor in the internet and software in last 10-20 years. The contribution made by this ecosystem is massive. So crypto is also an extension of the internet and software. So will India, which made rapid progress in the last few years want to leave this technological edge and will not participate in it? It is just a confusion right now, because innovation always comes first and then comes regulation. The truth is we cannot regulate something which does not exist. There has to be something to make regulation for that. So crypto is in the process and that is why it is unregulated. But now market is forming and eventually it will be regulated. We are trying to push as an industry towards regulations because it is a crucial time, where if government bring regulations, then as a nation we will be able to promote more startups and grow this ecosystem faster than other nations. Government intentions toward cryptocurrencies are also good, which is why gains from cryptocoins are subject to tax now. The fact that, RBI has issued its own digital currency demonstrates the interest in digital currencies. Only the unregulated method of circulation posed the biggest challenge for cryptocurrencies in Indian market. The Indian market, and especially the Indian government, will undoubtedly accept cryptocurrency as a form of payment and an investment choice when the cryptocurrency industry begins to become regulated by the appropriate authority.
**References**

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