



# Legal Implication Of Cryptocurrencies

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## ABSTRACT

Cryptocurrency has emerged as a revolutionary form of digital currency, challenging traditional financial systems and legal frameworks across the world. Its decentralized nature, anonymity in transactions, and borderless functioning raise significant legal implications that demand critical examination. In India, the status of cryptocurrency remains uncertain due to the absence of specific legislation and the fluctuating judicial and regulatory approach. While the Supreme Court in *Internet and Mobile Association of India v. Reserve Bank of India* (2020) struck down the RBI's banking ban on virtual currencies, the lack of comprehensive regulatory guidelines continues to pose challenges. The legal implications primarily revolve around issues of taxation, money laundering, investor protection, cybersecurity, and the possible conflict with existing financial laws. Moreover, the potential misuse of cryptocurrency in terror financing and illegal trade further complicates the regulatory landscape. This paper seeks to analyze the evolving legal status of cryptocurrency in India, compare it with international frameworks, and suggest reforms that balance innovation with legal certainty and consumer protection.

**KEYWORDS:** Cryptocurrency, Blockchain, Legal Implications, Cyber Security, Regulation

## INTRODUCTION

Cryptocurrency, built on blockchain technology, has transformed the global financial ecosystem by introducing a decentralized and borderless form of digital currency. Unlike traditional currencies regulated by central banks, cryptocurrencies operate independently of any state authority, relying instead on peer-to-peer networks and cryptographic protocols. Since the launch of Bitcoin in 2009, the rise of thousands of cryptocurrencies has challenged conventional financial and legal structures. However, their anonymity, volatility, and lack of centralized control have triggered serious concerns among lawmakers, regulators, and judicial bodies across the world. In India, the legal journey of cryptocurrency has been marked by uncertainty, ranging from the Reserve Bank of India's restrictions on banking transactions in 2018 to the Supreme Court's landmark judgment in *Internet and Mobile Association of India v. Reserve Bank of India* (2020) that restored limited legitimacy to virtual currencies. Despite these developments, the absence of a clear statutory

framework continues to create ambiguity in taxation, regulation, and consumer protection. The legal implications of cryptocurrency are of immense significance because they directly affect financial stability, consumer rights, and national security. Unregulated use of cryptocurrencies may facilitate money laundering, terror financing, tax evasion, and illegal trade, raising urgent concerns for lawmakers. At the same time, cryptocurrency and blockchain hold the potential to drive innovation, enhance financial inclusion, and revolutionize digital transactions. Striking a balance between regulation and innovation is therefore crucial for India's economic growth and legal certainty. Understanding the legal implications is not only important for creating robust laws and policies but also for aligning India's financial system with global regulatory standards. A comprehensive legal framework would provide clarity, protect investors, prevent misuse, and encourage the responsible adoption of digital currencies in the future.

## LEGAL FRAMEWORK

- Currently, India does not have a dedicated cryptocurrency law. However, certain existing legislations touch upon its legal implications.
- Reserve Bank of India Act, 1934 – under which RBI regulates currency and monetary policy.
- Payment and Settlement Systems Act, 2007 – regulates payment mechanisms, which indirectly cover digital transactions.
- Prevention of Money Laundering Act (PMLA), 2002 – can be applied to tackle money laundering through crypto.
- Income Tax Act, 1961 – recently, profits from virtual digital assets are taxed at 30%, showing the government's recognition of crypto as taxable.
- Proposed Cryptocurrency and Regulation of Official Digital Currency Bill, 2021 – aims to provide a framework, but has not yet been enacted.
- Judicially, the Supreme Court in the IMAI v. RBI (2020) case has played a major role in shaping the current status, but in the absence of a specific statute, the legal position of cryptocurrency in India remains uncertain.

## REVIEW OF LITERATURE

Several scholars and institutions have analyzed the evolving nature of cryptocurrency and its legal implications, both globally and in India.

- I. Nakamoto (2009), through the Bitcoin whitepaper, introduced the concept of decentralized digital currency, which formed the foundation of subsequent debates on legality and regulation. While the paper was technological in nature, it sparked discussions on how states could adapt their legal foundations or frameworks to a stateless currency.
- II. Chuen (2015) in the Handbook of Digital Currency highlighted the challenges cryptocurrencies pose to existing monetary systems and emphasized the necessity of legal intervention to prevent misuse.
- III. Yermack (2017) examined cryptocurrency's volatility and its incompatibility with traditional definitions of money, raising concerns about taxation and regulatory treatment.

- IV. In the Indian context, Singh (2018) in his article on Cryptocurrency Regulation in India, noted that the lack of legal clarity creates confusion among investors and regulators, thereby slowing down financial innovation.
- V. The Reserve Bank of India (2018) issued a circular prohibiting banks from providing services to cryptocurrency-related businesses, citing risks of money laundering and consumer harm. However, the Supreme Court of India in *IAMAI v. RBI* (2020) struck down this restriction, observing that the prohibition was disproportionate and violated the right to trade under Article 19(1)(g) of the Constitution.
- VI. Sharma (2021) analyzed the proposed Cryptocurrency and Regulation of Official Digital Currency Bill, 2021, and argued that while it seeks to introduce a framework, its restrictive approach could stifle innovation if not carefully balanced.
- VII. Internationally, the European Union's Markets in Crypto-Assets (MiCA) Regulation (2023) provides a model for India, as it establishes clear guidelines for issuance, trading, and consumer protection, showing that comprehensive legislation is both possible and necessary.
- VIII. From the above literature, it is very evident that while scholars and regulators acknowledge the opportunities presented by cryptocurrency, there is a consistent emphasis on the urgent need for a clear, balanced, and effective legal framework in India.

## RESEARCH PROBLEMS

The legal status of cryptocurrency in India remains highly uncertain due to the absence of a comprehensive regulatory framework. While the Supreme Court in *IAMAI v. RBI* (2020) recognized the right of individuals to trade in virtual currencies, the lack of specific legislation continues to create ambiguity. Existing laws such as the RBI Act, Payment and Settlement Systems Act, and the Prevention of Money Laundering Act only address limited aspects of cryptocurrency, leaving major issues unresolved. This uncertainty raises critical problems like:

1. How should cryptocurrency be legally defined—currency, commodity, asset, or security?
2. How can the misuse of cryptocurrency in money laundering, terror financing, and tax evasion be prevented?
3. How can investor protection and financial stability be ensured without stifling innovation in blockchain technology?

Thus, the central research problem lies in determining how India can balance legal regulation and technological innovation, while ensuring clarity, security, and consumer protection in the cryptocurrency market.

## RESEARCH OBJECTIVES

- To analyze the current legal status of cryptocurrency in India – including relevant case laws, RBI regulations, and proposed legislation.
- To examine the challenges and risks associated with cryptocurrency, such as money laundering, terror financing, tax evasion, and consumer protection issues.
- To study international regulatory frameworks – like the European Union’s MiCA Regulation and compare them with India’s approach.
- To identify gaps in the existing legal framework – highlighting areas where regulation is ambiguous or inadequate.
- To suggest recommendations for a comprehensive and balanced legal framework – ensuring innovation, financial security, and investor protection.

## RESEARCH QUESTIONS

Q. What is the current legal status of cryptocurrency in India, and how have judicial decisions and RBI regulations shaped it?

=> In India, cryptocurrency is not recognized as legal tender. RBI Circular (2018) prohibited banks from dealing with crypto businesses, citing financial risks. Supreme Court in IMAI v. RBI (2020) struck down this ban, stating the circular was disproportionate and violated Article 19(1)(g) (right to trade). The Income Tax Act 1961 now treats gains from cryptocurrency as taxable at 30%, showing partial legal recognition. The Proposed Cryptocurrency and Regulation of Official Digital Currency Bill, 2021, aims to provide regulatory clarity, but it has not yet been enacted.

Q. What are the primary legal challenges associated with cryptocurrency, including risks of money laundering, terror financing, and investor protection?

=> The primary legal challenges associated with cryptocurrency are:

- Money Laundering & Terror Financing: Anonymity of crypto makes it attractive for illegal transactions.
- Investor Protection: Volatility and scams risk financial loss; no regulatory safety net exists.
- Tax Evasion: Tracking transactions is difficult; gains can escape legal scrutiny.
- Cybersecurity: Digital wallets and exchanges are prone to hacking.
- Legal Ambiguity: Absence of a comprehensive law creates confusion for investors and businesses.

Q. How do international regulatory frameworks, such as the European Union’s MiCA Regulation, address cryptocurrency, and what lessons can India learn from them?

=> EU MiCA Regulation (2023): Provides clear rules for issuance, trading, consumer protection, and environmental compliance.

US SEC Approach: Crypto may be treated as securities; emphasis on investor disclosure.



Lessons for India: Need for clear legal definitions of cryptocurrency, comprehensive rules for exchanges and wallets, and strong investor protection and anti-money laundering provisions.

Q. What gaps exist in the current Indian legal framework regarding cryptocurrency, and how do these gaps affect financial stability and consumer protection?

=> Gaps exist in the current Indian legal framework regarding cryptocurrency and affect financial stability and consumer protection:

- Lack of comprehensive legislation; only fragmented laws exist.
- No standardized regulatory authority for crypto activities.
- Ambiguity leads to financial risks: fraud, scams, and hacking.
- Investors lack legal recourse; consumer protection is weak.
- Risk of systemic instability if crypto grows unchecked without legal oversight.

Q. How can India develop a comprehensive and balanced legal framework that promotes innovation while ensuring security, clarity, and protection for users and investors?

=> India can develop a comprehensive and balanced legal framework that promotes innovation while ensuring security, clarity, and protection for users and investors:

- Define cryptocurrency clearly (digital asset, security, or commodity).
- Establish a dedicated regulatory authority for virtual digital assets.
- Introduce robust anti-money laundering and cybersecurity rules.
- Ensure taxation clarity for investors and businesses.
- Learn from global practices (EU MiCA, US SEC) to balance innovation + consumer protection.
- Promote blockchain technology for legitimate financial and technological growth while preventing misuse.

## RESEARCH METHODOLOGY

This research paper on the legal implications of cryptocurrency in India primarily uses the doctrinal research method, which is most common in legal studies. Doctrinal research involves analyzing existing laws, regulations, case laws, and scholarly literature to understand the legal framework and its practical implications.

### Types of Research:

Doctrinal (Library-based) Research:

Examines statutes, Supreme Court and High Court judgments, RBI circulars, government reports, and proposed legislation.

Comparative Analysis:

Studies international regulatory frameworks such as the European Union's MiCA Regulation and US SEC rules to identify best practices and lessons for India.

**Sources of Data:****Primary Sources:**

Constitution of India, RBI Act 1934, Prevention of Money Laundering Act 2002, Payment and Settlement Systems Act 2007, Income Tax Act 1961, and Supreme Court judgments.

**Secondary Sources:**

Law journals, articles, books on cryptocurrency and blockchain, reports by regulatory authorities, and news articles on crypto regulation.

**Data Collection & Analysis:**

- Collect legal provisions, circulars, and judgments related to cryptocurrency.
- Examine scholarly opinions and case studies on challenges, risks, and international best practices.
- Identify gaps in the existing Indian legal framework.
- Provide recommendations based on comparative and doctrinal analysis.

**SCOPE AND LIMITATIONS**

Scope: Focused on legal implications, regulation, investor protection, and policy suggestions.

Limitations: Does not include empirical data (like surveys of investors) due to resource constraints; relies primarily on secondary sources and doctrinal study.

**ANALYSIS AND DISCUSSION****1. Current Legal Status of Cryptocurrency in India**

The legal status of cryptocurrency in India remains ambiguous. While cryptocurrencies are not recognized as legal tender, they are partially regulated through taxation under the Income Tax Act. The RBI's 2018 circular banning crypto-related banking transactions was struck down by the Supreme Court in *IAMAI v. RBI* (2020), emphasizing the right to trade under Article 19(1)(g).

Critical Evaluation: This judgment temporarily legitimized cryptocurrency trading but did not provide a statutory framework, leaving investors and businesses in a legal grey area. Without clear laws, risks such as fraud, hacking, and investor losses persist.

**2. Legal Challenges and Risks**

Cryptocurrencies pose multiple legal challenges:

- Money Laundering and Terror Financing: Anonymity of transactions makes crypto attractive for illicit use.
- Investor Protection: Volatility and scams expose investors to high financial risks.
- Taxation and Compliance: Lack of uniform regulation complicates the monitoring of profits and losses.
- Cybersecurity Threats: Digital wallets and exchanges are vulnerable to hacking.

Critical Evaluation: These challenges highlight the urgent need for comprehensive legislation. While technology promotes financial inclusion and innovation, its misuse could destabilize the financial system.

### 3. International Regulatory Frameworks and Lessons for India

- EU MiCA Regulation (2023): Provides clear rules for issuance, trading, and consumer protection.
- US SEC: Treats certain cryptocurrencies as securities and mandates investor disclosure.

Critical Evaluation: India can learn from these models to define cryptocurrency legally, regulate exchanges, ensure transparency, and protect investors. A balanced approach can promote innovation while minimizing legal and financial risks.

### 4. Gaps in the Indian Legal Framework:

- Absence of a dedicated law for cryptocurrency.
- Fragmented regulation across RBI, Income Tax Act, and PMLA.
- No clear authority overseeing cryptocurrency exchanges.

Critical Evaluation: These gaps create uncertainty for investors, hinder innovation, and increase the risk of illegal activities. Clear definitions, regulatory oversight, and enforcement mechanisms are essential to fill these gaps.

### 5. Recommendations for a Balanced Legal Framework:

- Legally define cryptocurrency (asset, currency, or security).
- Establish a dedicated regulatory authority for virtual digital assets.
- Implement strict anti-money laundering and cybersecurity rules.
- Ensure taxation clarity and compliance mechanisms.
- Encourage blockchain innovation while safeguarding investors.

Critical Evaluation: A comprehensive framework will balance innovation, security, and investor protection, aligning India with international best practices while addressing domestic risks.

## FINDINGS

**1. Legal Ambiguity:** Cryptocurrency in India is not recognized as legal tender; Supreme Court rulings and RBI regulations provide only partial clarity.

**2. Risks Identified:** Major challenges include money laundering, terror financing, investor protection issues, tax evasion, and cybersecurity threats.

**3. Fragmented Regulation:** Existing laws (RBI Act, PMLA, Income Tax Act) address certain aspects but fail to provide a comprehensive framework.

**4. International Lessons:** Countries like the EU and the US have clear regulations for crypto, which India can adopt to balance innovation and security.

**5. Need for Comprehensive Framework:** There is an urgent requirement for legislation that defines cryptocurrency, regulates exchanges, ensures investor protection, and encourages blockchain innovation.

## CONCLUSION

Cryptocurrency represents both opportunity and challenge for India's financial and legal system. While it has the potential to drive innovation, digital inclusion, and efficient financial transactions, its unregulated use poses significant risks. The Supreme Court's IMAI judgment offers temporary relief to investors, but the absence of a dedicated law leaves the sector vulnerable. A balanced legal framework is essential—one that:

- Provides legal clarity on cryptocurrency's status,
- Protects investors and prevents misuse,
- Encourages technological innovation and adoption of blockchain.

By studying international models and addressing domestic challenges, India can establish a regulatory environment that safeguards financial stability, promotes responsible innovation, and aligns with global best practices.

## SUGGESTIONS AND RECOMMENDATION

- 1. Clear Legal Definition:** Define cryptocurrency clearly in law as a digital asset, security, or commodity to avoid ambiguity.
- 2. Dedicated Regulatory Authority:** Establish a specialized body to regulate cryptocurrency exchanges, wallets, and transactions.
- 3. Comprehensive Legislation:** Enact a law specifically addressing issuance, trading, taxation, anti-money laundering, cybersecurity, and consumer protection.
- 4. Investor Protection Measures:** Mandatory disclosures, risk warnings, and guidelines for crypto investors to prevent scams and financial losses.
- 5. Anti-Money Laundering & Security Rules:** Implement strong KYC (Know Your Customer) and AML (Anti-Money Laundering) measures for all crypto transactions.
- 6. Tax Clarity & Compliance:** Provide clear guidelines on taxation of crypto gains, losses, and cross-border transactions to reduce confusion.
- 7. Encourage Innovation:** Support blockchain-based innovation and FinTech growth while maintaining legal oversight.
- 8. Learning from International Best Practices:** Adopt models like the EU MiCA Regulation and US SEC guidelines to create a balanced approach between innovation and regulation.

## SUMMARY

These recommendations aim to balance innovation with legal certainty, protect investors, prevent misuse, and provide India with a strong, clear regulatory framework for cryptocurrency.



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