**The Future of Cryptocurrency in India**

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**Abstract**

It all started because of one person Mr. Satoshi Nakamoto, the founder of Bitcoin. The first-ever cryptocurrency was created in the year 2008 and its circulation started in the year 2009. In today’s era investing in cryptocurrencies has become a fashion for this generation. Most people are investing a huge amount of money in this highly volatile asset without knowing its legal implications to become a millionaire overnight. This currency is so volatile that it can just fluctuate on one person’s tweets. India is the first country in the world to have more than 100 million cryptocurrency holders with an investment of more than Rs 75,000 crores. In this article, the meaning, nature, working of Cryptocurrency, and legal provisions along with the future of cryptocurrency in India are discussed.

The future of cryptocurrency in India is currently uncertain. In 2018, the Reserve Bank of India (RBI) issued a circular prohibiting bank from providing services to individuals or businesses dealing in cryptocurrencies. However, the Supreme Court of India overturned this ban in March 2020. Since then, there have been discussions about the possibility of regulating the cryptocurrency industry in India, but no official legislation has been passed. The government of India is yet to take a clear stand on Cryptocurrency, but it is expected to regulate it in near future.

**Introduction**

Cryptocurrency is a virtual currency made up of coding and binary language which is based on “Block-Chain Technology” and secured by “Cryptography”. The main objective is to create a Decentralized peer-to-peer money transfer system without the involvement of any government or bank and not even any central authority in between. The main factor behind the success of cryptocurrency is the non-involvement and non-regulation by any regulatory authority. Cryptocurrency eliminates the need for a middleman such as a bank or payment processor, allowing money to be transferred worldwide, near-instantaneously, and for nominal fees. “The most popular cryptocurrencies, by market capitalization, are Bitcoin, Ethereum, Bitcoin Cash, and Litecoin. Other well-known cryptocurrencies include Dogecoin, Shiba Inu, Tezos, EOS, and ZCash. Some are like Bitcoin. Others are based on different technologies, or have new features that allow them to do more than transfer value”[[1]](#footnote-1).

To get a deep understanding of Cryptocurrency, major technological terminologies are described herein.

* **Blockchain** - A blockchain is a decentralized ledger that records all peer-to-peer transactions. Users can confirm transactions without the requirement for a central clearing agency using this technology. Fund transfers, trade settlement, voting, and a variety of other challenges are all possible applications and Blockchain is a technology used for storing data that makes it extremely difficult to manipulate, manipulate, defraud, or bypass the system.

A blockchain is a digital database of monetary transactions that are generated and spread across the blockchain's complete network of computer units. Each block in the chain includes several transactions, and when a new transaction happens on the blockchain, a log of that action is recorded in the ledger of each user. Distributed Ledger Technology is a decentralized database that is administered by various people (DLT).

Blockchain technology is a form of distributed ledger technology in which transactions are recorded using a hash, which is an irrevocable cryptographic signature. This means that blockchain technology is so secure that even if a single block in a chain has been modified, it'd be visible that it had been altered. Hackers will have to alter every block in the chain, throughout all distributed versions of the chain, to destroy a blockchain system.

Blockchains like Bitcoin and Ethereum are constantly growing as new blocks are added to the chain, boosting the security of the ledger immensely.

* **Decentralized -** The transition of control and decision-making from a centralized system (person, organization, or group thereof) to a dispersed network is referred to as the decentralization in the blockchain. Decentralized networks aim to limit the amount of trust that participants must place in one another and to prevent them from exerting authority or control over one another in ways that harm the network's performance.

Decentralization is not a modern phenomenon. When building together a technology setup, three basic network structures crop up: centralized, decentralized, and disseminated. While decentralized networks are widely used in blockchain technology, a blockchain system cannot be classified as decentralized or not. Perhaps decentralization should be extended to all aspects of a blockchain program on a sliding scale. More noticeable and pleasant support can be achieved by decentralizing the administration of and access to assets in an application. Decentralization usually has a few drawbacks, such as lower exchange rates. However, the increased security and services provided by such failures make them worthwhile.

* **Cryptography**

Cryptography is a way of protecting sensitive information against security breaches. Cryptographic techniques are used in blockchain security controls. It ensures that transmission between two nodes in a blockchain network is trustworthy. Blockchain technology is built on three key pillars: distributed ledger, peer-to-peer network, and cryptographic security.

Without a comprehensive security solution in place, a distributed ledger system and a point-to-point network cannot function successfully and safely. Cryptography and hashing are two types of security measures used by Blockchain. The main distinction between these two is that in a P2P (Point-to-Point) network, encryption is utilized to encrypt messages. Hashing, on the other hand, is used to safeguard block data and link blocks in a blockchain.

**Research Objectives**

* To analyse the issues with regards to cryptocurrency in India.
* To analyse the current legal regime of India in the aspect of Cryptocurrency
* To propose some recommendations that will be beneficial to regulate the virtual currency.

**Indian legislation on Cryptocurrency**

According to a Bloomberg article, India won't draught cryptocurrency legislation until there is an international agreement to control these assets. According to a source who spoke to the news agency, the government has no immediate plans to strengthen or control existing laws.

As declared by Finance Minister Nirmala Sitharaman in her Budget 2022 speech, the Indian government moved closer to dispelling doubts over the legal status of cryptocurrency transactions by revealing intentions to tax the profits from the transfer of virtual assets at 30%. It had earlier intended to draught legislation outlining the government's position on the issue.

From 1 April, the transfer of virtual digital assets (VDAs) or crypto assets will be subject to a flat 30 percent tax. Additionally, a tax deducted at source (TDS) of 1% will be applied to each transfer of these assets. The TDS provision, however, will go into effect on July 1st.

Prime Minister Narendra Modi had stated in his visit to the World Economic Forum in January that a global consistent policy on cryptocurrencies was required and that actions by one country would not be sufficient.

After the country's top court overturned limits placed by the Reserve Bank of India in March 2020, cryptocurrency investments have exploded in India. According to a report released in October by the cryptocurrency monitoring company Chainalysis, the Indian market expanded by 641% between July 2020 and June 2021.

The finance minister made it clear during the budget session that taxing virtual assets does not imply that the government is legalising them. At this time, nothing is being done to legalise or outlaw it.[[2]](#footnote-2)

The yet-to-be-introduced legislation in India might still result in jail time or penalties, but only for breaking new tax laws that define how much tax must be paid, not just for trading in cryptocurrencies: 30% of the income from the transfer is subject to tax, and all transactions are subject to a 1% source tax (or TDS, for Tax Deducted at Source). Two additional requirements are that gifts will be taxed once they are in the possession of the receiver and that losses from the transfer of digital assets cannot be offset against any other income.

In her speech earlier this month, the finance minister used the term "virtual digital asset," which highlights the reason why many in the sector and the media that covers it do not consider cryptocurrency to be legal.

Virtual digital assets are any "information, code, number, or token (not being Indian money or foreign currency) produced using cryptographic means or otherwise, by whatever name called, providing a digital representation of value traded," according to the budget plan.

That simply indicates that the government refers to all cryptocurrencies and NFTs as "virtual digital assets."

The term "digital" is used since cryptocurrencies or NFTs are not physical legal money like a 100 rupee note, but rather a digital representation.

The government had previously considered using the term "crypto-assets" to denote the fact that cryptocurrencies are not used as money and cannot be used to buy or sell goods, but rather are stored as an asset for investment purposes.

For taxes purposes, the government uses a very broad definition of "digital assets" or "cryptoassets." Another argument is that the Financial Action Task Force, a global organisation, also uses the phrase "virtual assets," and the government wants to be consistent with this nomenclature.

As of 2021, there is no specific legislation in India regarding the use and trading of cryptocurrency. The Reserve Bank of India (RBI) has issued warnings to the public about the risks associated with dealing in cryptocurrencies, but it has not yet implemented any regulations. In 2019, the Indian government formed a panel to study the feasibility of a digital version of the Indian rupee and the implications of such a move on the economy, including the potential impact on the use of cryptocurrencies.

In the budget speech of 2022, the Indian Finance Minister announced that the government will take all measures to eliminate the use of crypto assets in financing illegitimate activities or as part of the payment system. The government will explore the use of blockchain technology proactively for ushering in digital economy.

It is expected that the Indian government will release a bill that will regulate the use of cryptocurrency in India and also impose restrictions on its use. However, it's yet to be seen what form the regulations will take and how they will be enforced.

1. https://www.coinbase.com/learn/crypto-basics/what-is-cryptocurrency [↑](#footnote-ref-1)
2. https://www.livemint.com/market/cryptocurrency/india-will-frame-cryptocurrency-law-after-global-consensus-report-11648789014273.html [↑](#footnote-ref-2)