



CRYPTOCURRENCY AS A REVOLUTION

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Abstract

This research paper investigates the crypto market with the intent to revolutionize modern financial infrastructure and its rapid impact on the Indian economy. This paper talks about the advantages, disadvantages and potential risks of cryptocurrency. It also explains taxation policies and their effect on virtual digital assets or cryptocurrencies in India. The paper will also show you the overall journey of cryptocurrency in India and some recent developments and movements that may impact whether cryptocurrency contributes to an economic paradigm shift.

Introduction

Humans have used commodity currencies for most of their history. Fiat currency is a more recent invention, having first appeared roughly 1000 years ago and now is the most widely used kind of cash. But it's possible that this isn't the end of monetary history. Cryptocurrency is a new, experimental type of money that is neither a commodity nor fiat money. The cryptocurrency experiment may or may not succeed in the long run, but it does offer a unique combination of technical and monetary properties that present distinct economic concerns to previous forms of money.

Cryptocurrency refers to a system that employs encryption to enable the secure

transfer and exchange of digital tokens in a distributed and decentralised manner. These tokens can be exchanged for fiat money at market rates. Bitcoin was the first cryptocurrency, and it was launched in January 2009. Since then, lots of new cryptocurrencies have emerged, each incorporating the same breakthroughs as Bitcoin while tweaking some of the governing algorithms' unique settings. Bitcoin brought two major improvements that made cryptocurrencies possible. Two long-standing difficulties in computer science, the double-spending dilemma and the Byzantine Generals Problem, were solved.

What is Cryptocurrency?

A cryptocurrency (or "crypto") is a type of payment that may be sent across the world without the need for a central monetary authority such as a government or bank. Cryptocurrencies, on the other hand, are created using cryptographic processes that allow users to purchase, sell, and trade them safely.

Although that cryptocurrency can be used to buy, sell, and exchange goods and services, they are mostly employed used as investment vehicles. In some decentralised financial networks, where digital tokens act as a transactional instrument, cryptocurrency is also crucial to their ability to operate.

The most well-known cryptocurrency, Bitcoin, has a track record of price volatility. Before the economy turned around, it hit an all-time high of more than \$65,000 in 2021.

The two main categories of cryptocurrencies are coins and tokens. Coins and tokens are



separate from one another and have distinct possible values for various kinds of enterprises. A coin is a cryptocurrency application that runs on its blockchain, which is where all transactions occur. Bitcoin, Ethereum, Dogecoin, and other larger coins are examples. These are the types of assets that people can buy and sell. Someone who wishes to produce a new coin must first establish a new blockchain.

How does Cryptocurrency work?

Government and other central regulatory bodies don't have control over cryptocurrencies. Cryptocurrency is a concept, that operates outside of the banking system using different types of coins. These currencies are distributed over different public ledgers known as blockchains, which are updated and maintained by currency holders.

Mining: -Cryptocurrencies are created through a process known as mining which is entirely digital. This is a tricky process. During crypto mining, certain mathematical puzzles are solved using specially equipped computer systems, in return, they are rewarded with cryptocurrency in exchange.

Trading: – Cryptocurrencies can be bought and sold from central exchanges, brokers, and individual currency owners or sell it to them. One can easily do trading using online apps like Binance, Coin Switch, Wazirx etc. After purchase, it will be stored in digital wallets.

Investment: – Cryptocurrencies can be converted into native currency and transferred to the respective bank account.

Also, it can be transferred from one digital wallet to another.

Cryptocurrency Journey so far in India

2013: RBI releases First Cryptocurrency Circular

The RBI released a circular in 2013, warning people against the use of virtual currencies. Holders and traders of Virtual currencies have been warned by the bank about the financial, operational, legal, customer protection and security hazards they are taking. The Central Bank announced that it has been closely monitoring developments in the world of virtual currencies such as Bitcoins, Litecoins, and other Altcoins.

Two Public Interest Litigations (PILs) have been filed in the Supreme Court, one proposed that Crypto Currencies be banned from being bought and sold in India and the other proposed that they should be regulated. There was no cryptocurrency restriction at the time, and most banks permitted transactions from cryptocurrency exchanges.

2018: RBI's Banking on Crypto

In March 2018 draft scheme was submitted by a central board of digital tax (CBDT). This draft suggested many points of view regarding banning cryptocurrency.

After a month the RBI issued a circular in the context of detaining banks and other financial institutions from providing financial services to virtual currency exchanges. Sushil Chandra (chairman of CBDT) also expressed his support for the banning of cryptocurrency and also said that crypto creates a chain of black money.



In April 2018, the finance ministry-appointed committee proposed a draft bill for the regulation of virtual currency, however, did not advise a ban but in February 2019 the committee proposed a fresh draft that recommend a blanket ban.

2020: Supreme Court drops the prohibition on cryptocurrency banking ban

In March 2020, the Supreme Court of India decided against cryptocurrencies which are imposed by RBI.

After this decision banks and financial institutions were restricted from providing access to banking services to those who transferred any crypto assets.

2021: Announcement of Crypto Bill

An Inter-Ministerial committee was formed under the chairmanship of the secretary of economic affairs for studying the issues related to virtual currencies and suggesting specific actions to be taken in matters recommended in its report but all private cryptocurrencies issued by the state will be prohibited in India.

Due to risk involvement and the existing laws were insufficient to address the challenges surrounding cryptocurrency. So, the government planned to introduce a bill on cryptocurrencies.

Nirmala Sitaraman (Finance Minister) stated on March 5 in an interview with CNBC TV 18, "We want to make sure that there is a window for all kinds of experiments which will have to take place in the crypto world." Regarding the issue of cryptocurrencies, the Standing Committee on Finance chaired by BJP member Jayant Sinha met with members

of crypto exchanges, the Blockchain and crypto assets council, and others. They concluded that cryptocurrencies should not be 2022 banned but regulated.

2022: Budget 2022-23 announced tax on cryptocurrency

This is the year when big changes have happened in India. On February 1, The Union Budget 2022-23 presented provisions for Tax deducted at source (TDS) on virtual assets or cryptocurrencies from July 1 and cess and surcharges are also levied on such transactions in the same manner as it treats winnings from horse races or other speculative transactions.

How are cryptocurrencies regulated in countries around the world

- 1. China:** -In the last few months, China's stance on cryptocurrencies has changed radically. China allowed residents to trade and mine crypto currency in the early years. but it cracked down on mining activities and officially banned the trade in June 2021.
- 2. United States:** -The United States jurisdictions have a dual government system which allows different states to have separate cryptocurrency regulations. Example New York and Wyoming are proponents of cryptocurrencies and many states in the US have yet to adopt a position on cryptocurrencies.
- 3. EL Salvador:** -In September 2021, El Salvador became the first country to use bitcoin as legal tender alongside the US dollar. Nayib Bukele, the president of this South American country has stated that Bitcoin has the potential to relieve poverty and encourage more people to go digital.
- 4. United Kingdom:** -The United Kingdom is not fully banned cryptocurrency. However,



they came up with some rules and regulations to control the authorisation of cryptocurrency-related businesses the Financial Conduct Authority (FCA). The FCA has a set of strict rules that all applicants for a license must follow. They generate tax revenues from the traders and investors who invest in cryptocurrencies.

Pros of Cryptocurrency: -

1. **High Risk-High Profit:** - At Present, there are more than 10000 cryptocurrencies on the market. They all have their own set of characteristics that are common as well. The prices are influenced by the sudden demand and the supply chain results in substantial returns.
2. **No fraud & Scam in cryptocurrency through Blockchain:** -One of the most significant benefits of cryptocurrencies is tracked by the decentralised data storage ledger called Blockchain. In the blockchain, once you make an entry it cannot be erased. And with the blockchain stored data is decentral across multiple computers. As a result, no hacker can access the entire change in one go.
3. **Crypto trades 24/7:** - Another benefit of cryptocurrencies is that the crypto markets are always open. We don't have to wait for the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) or any other exchange to start trading for the day if you want to buy, sell or trade cryptocurrency.
4. **The Cheapest method of transaction:** - Sending money across borders is one of the most common uses of cryptocurrencies. The transaction fees that a user must pay are eliminated or reduced to a negligible amount with the use of cryptocurrencies. It eliminates the need to pay any additional transaction costs.

Cons of Cryptocurrency: -

1. **Crypto has serious scalability issues:** - The digital currencies move at lightning speed and they do, up to a certain level. But they run into numerous challenges which make it difficult to execute them can a big level.
2. **Cryptocurrencies can be an extremely volatile investment:** - The price of the cryptocurrency can spike to dizzying highs and it can also fall to terrible lows in the eye. So, if you are looking for any kind of stable source of income this might not be the ideal option.
3. **Irreversible:** -Another problem is the lack of security, cryptocurrency transactions are anonymous and unregulated. Because crypto transactions are irreversible. There is also a risk of loss when crypto holders choose to keep their currency in a cryptocurrency wallet, putting their investment in danger if they lose access to their private key.
4. **Illegal business dealings:** - Since cryptocurrency transactions are highly safe and secure, it is challenging for the government to track down any user by their wallet address or keep an eye on their data. Bitcoin has historically been used to exchange money during many unlawful transactions, such as purchasing drugs on the dark web. Some people have also utilised it to convert their illegally obtained money through an authorized middleman to conceal the source.

Is Crypto a threat to fiat currency or the future of Money?

Anything can be traded for money as long as the terms are agreed upon by both parties. Paper money has therefore added stability and value to all goods and services in some measure. People of a certain generation now



predict that paper money would eventually decline or vanish, and this prediction appears to be partially accurate now that cryptocurrencies are accessible. To decentralise money after the 2008 global financial crisis, coins were launched.

The crypto payment is peer-to-peer. There is no permission required for users to send and receive payments to and from anyone else in the entire globe unless they are doing it via a regulated exchange or financial institution. In contrast, in fiat currency exchanges, users are required to facilitate the exchange by a centralised third party. In crypto exchanges, there are no charging fees which are the so-called maker and taker fees for regular deposit and withdrawal fees. There are no requirements for account maintenance fees, overdraft fees, and other banking costs. However, in fiat currencies, there is no advantage like crypto users. Users of cryptocurrencies can make online payments using their coins from any place in the whole world where they have an internet connection. Customers no longer visit banks or stores to purchase products.

With everything that has been said previously, Cryptocurrency is advantageous as a currency and has endless possibilities. For instance, after being forced to flee the Russian invasion in 2022, many Ukrainians resorted to Bitcoin. Many people might not have had the resources to exist without cryptocurrencies.

How Crypto Currencies are taxable in India: -

Recently Finance Minister Nirmala Sitaraman introduced a 30% income tax on returns from digital currencies. The income tax was amended with effect from April 1, 2022, in India to provide for the taxation of

gains and or income derived from Virtual Digital Assets (VDA). According to subsection (6) of section 194S of the Income Tax Act, 1961 introduced a 1 per cent TDS on payments of over Rs. 10000 towards virtual currencies has also been introduced, which has already started from July 1. The threshold limit for TDS is Rs. 50000 a year for specified persons, which includes individuals/HUFs who are required to get their accounts audited under Income Tax Act. Some Provisions are: -

- If a person suffers from a loss made on an investment, then he will not be liable to pay tax.
- The recipient of a cryptocurrency will be taxed if the fair market value is exceeding the threshold limit of Rs. 50000 in the form of a gift received. The recipient can be any person such as an individual, corporate, partnership, recipient or non-resident. The difference between the fair market value and the consideration paid is treated as taxable income in the hands of the person who received the crypto assets. When a person receives crypto assets for lower than the fair market value and the fair market value exceeds the money by more than Rs. 50,000.
- The intra-head adjustment of losses, i.e., set-off of loss arising from one VDA with the income from another VDA, is not permitted. If you have a loss from the transfer of bitcoin and a profit from the transfer of NFTs, you cannot deduct the loss from the transfer of bitcoin from the profit on the transfer of NFTs. Your tax obligation for NFT transfer profits is a fixed rate of 30%.
- “Thus, in a peer to peer i.e., buyer to the seller without going through an Exchange) transaction the, buyer i.e., the person paying the consideration) is required to deduct tax under section 194S of the Act,” the CBDT said.



- Concerning liability to deduct tax at source under section 194S of the Act when the consideration is in kind or exchange for VDA, the CBDT said in this situation, the person responsible for paying such consideration is required to ensure that the tax required to be deducted has been paid in respect of such consideration, before releasing the consideration.

Where to buy and trade Cryptocurrency:

There are so many online services available for trading in cryptocurrency likewise stock exchanges.

They allow us to purchase and sell digital currencies such as Bitcoin, Ethereum and dogecoin with minimal costs and with solid security features. While choosing the appropriate cryptocurrency, in exchange for our needs, it is crucial to look at supported currencies, pricing, withdrawal options and security which is what we did while pricing the list of the best cryptocurrency.

- Coinbase:** - Coinbase is one of the most popular and best cryptocurrency exchanges. Because it has generally avoided fraud in the cryptocurrency market, which has largely avoided any cryptocurrency. And it provides a user-friendly exchange which is lessening the barrier to entry for cryptocurrency investment which is portion considered complex and confusing.
- Block-fi:** - These platforms also offer us cryptocurrency investment which allows us to lend and earn interest on our holdings. We can also borrow against our holdings instead of selling our coins and tokens.
- CoinDCX:** - In India CoinDCX is considered to be the best crypto exchange. Through CoinDCX traders can access more than 200

Cryptocurrencies like Bitcoin, Ethereum, Ripple, Litecoin and various other coins legally. It attracts a large number of Investors because the trading fee is significantly less compared to other exchanges.

- Gemini:** - As one of the first significant exchanges and currently one of the largest by assets, Gemini is a well-liked platform for investing in cryptocurrencies.

Gemini offers decent assistance and involvement, supports most of the major cryptocurrencies, and offers reasonable interest rates on assets if you meet the requirements.

Risk Management methods to reduce the inherent risk of Cryptocurrency: -

- Seek Regulatory Approval:** - At present cryptocurrency is decentralised with no regulatory control or framework ironically some stamp of approval from a regulator would go a great way towards increasing cryptocurrency credibility and trustworthiness and also reducing the risky cryptocurrency
- Structural Mitigants:** - Enhancement of the ecosystem could consist of better improvement of cryptocurrency exchanges Crypto exchanges not only can act as an exchange but can also act as broker-dealers and custodians at the time of market volatility giving traders security and market uncertainty. If these exchanges hold reserves sufficient to survive any major crash adopting the same principle as a clearing house It could also provide an extra level of protection at the time of volatility and market uncertainty.
- Education:** - Education plays an important role in awareness the traders about the malfunction in cryptocurrency Education is a



continuous process with the help of education we can decrease the risk and improve the confidence of traders. There are three principles given below which protect from cybercrimes are: -

1. Spoofing payment information and Phishing
2. Hacking a payment gateway
3. Crypto-jacking

A complete education provides the latest security methods, backups by antivirus, backups, strong and frequent password protection etc. These can also help to mitigate cybercrime and fraud.

Conclusion: -

India is a large country with an even larger population, making its economy all the more sensitive. The fact that we are even discussing the banishment of cryptocurrency itself suggests that it is not an entirely safe and ensured way to boost the economy. India has also thus far rejected crypto, because of its ability to rely only on an internet connection, not being dependent on financial institutions such as banks, although Microsoft and other such tech companies have already started simulation tests for such institutions, showing a possibility that both traditional and future kinds of financial methods could co-exist.

Notably, cryptocurrency has also been projected to be a necessity in the far future, possibly 10 years from now, and is also showing extremely positive signs in terms of frequent increases in value, as observed in Western countries. It suggests that we may as well have to rely on them quite soon. And when that time comes, India will not be able to jump the gun if we do not start the

preparations right now, even if (and preferably) at a smaller scale. The ability of Cryptocurrency to be more transparent and have fewer risks of fraud may as well turn out to be a blessing, considering how badly India is suffering from corruption and fraud.

Remember that gathering the essential knowledge and abilities is the most crucial step before entering the world of crypto, so make sure to do some research.

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