After the Budget's Crypto Signal, India awaits Reforms

Why in news?

In the Union Budget speech, Finance Minister announced a 30% flat tax rate levied on any gains made from the transfer of virtual assets including cryptocurrencies and Non-Fungible Tokens (NFTs).

What are virtual digital assets?

- Virtual digital assets include evolving manifestations of crypto currencies, codes and non-fungible tokens.
- **Crypto currency**- Crypto currency consists of a digital denomination designed to work as a medium of exchange through a distributed computer network (a blockchain)
- It is not reliant on any central authority such as a government or a bank for its upholding and maintenance.
- **Non-fungible token**- A non-fungible token (NFT) is a non-interchangeable unit of data stored on a blockchain, that can be sold and traded.
- Unlike fungible tokens like crypto currencies, they cannot be traded or exchanged at equivalency.
- NFTs can be used to represent real-world items like artwork and real-estate.
- NFTs can also be used to represent individuals' identities, property rights.

What are the signs of optimism of the budget announcement?

- **Away from abrupt ban**- This move amounts to an indirect affirmation of the role that cryptocurrency and related technologies could play in India's financial-cum-economic system.
- There are foreseeable changes that would legitimise and formally legalise the activities of crypto start-ups and enable them to access the necessary support system which might not have been available previously.
- **Reforms-** Such a statement also signals reforms aimed at removing ambiguity among the relevant stakeholders.
- While critics observe that the 30% tax rate is a harsh rate, this is a premium and price well-worth paying in exchange for a ruling-out of prospects for a total ban on crypto by the central government.
- The high tax rate would hamper the willingness of investors to convert cryptocurrencies into the national fiat and this may, in turn, open up more doors for technologically savvy and innovation-minded investors.
- **DeFi-** It would involve DeFi (Decentralised Finance) activities such as staking, lending, and providing liquidity, among others.
- DeFi is an umbrella term for financial services on public blockchains.
- **Innovation**- The processes would drive innovation in the field of Indian DeFi and they would go a long way in assisting the building up of our crypto-financial ecosystem in the long run.

- **Cheaper transactions**- The adoption of crypto currencies and virtual assets would enable quicker and cheaper transactions compared to banks and new forms of wealth creation without centralised intermediaries.

To know more about taxation on Crypto Assets, click here

What are the potential concerns?

- **Barrier for SMEs**- The community of small and medium-sized enterprises (SMEs) and lower-end high net-worth individuals is going to find it most difficult to access the ecosystem given the substantial barriers posed by the tax rates.
- **Lack of clarity**- There is a fundamental lack of clarity in aspects other than taxation.
- While the finer details can only be seen once the **Cryptocurrency Bill** is passed, there appears to be a push to treat crypto as purely an asset class than a currency.
- **Affects decentralisation-** The Government's proposal of RBI's Central Bank Digital Currency will help in pushing for the adoption of digital currencies, but, equally, defeats the fundamental purpose of cryptocurrency which is decentralisation.

What reforms are needed?

- **Reduction of tax rates**- There is a need to reduce tax rates in the future, though this must be weighed against considerations concerning government revenue.
- **Curbing speculations-** Also, there is a need to curb speculative bubbles surfacing in relation to the currency.
- **Tapping other insights-** The other reform constitutes the incorporation of insights from seasoned partners from international communities, engaging these individuals for their advice on the best practices associated with cryptocurrency policymaking.
- **Systemic reforms**- Systemic reforms are not easy, but they act as an accelerator of India's advancement in the sphere of cryptofinance and blockchain social policymaking.

Reference

1. https://www.thehindu.com/todays-paper/tp-opinion/after-the-budgets-crypto-signal-india-awaits-reforms/article65057468.ece

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