Bitcoins in India

How do Bitcoins work?

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- Bitcoin was introduced in 2008 by still unidentified inventor who goes by the name ‘Satoshi Nakamoto’.
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- Bitcoin has no central monetary authority.
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- It is underpinned by a peer-to-peer computer network made up of its users’ machines called block chain.
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- Bitcoins are mathematically generated as the computers in this network solve various mathematical tasks.
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- This procedure is known as Bitcoin “mining”.
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- The mathematics of the Bitcoin system is set up in such a way that it becomes progressively more difficult to “mine” Bitcoins over time.
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- The total number that can ever be mined is limited to around 21 million.
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- For every verified number that is ‘mined’, the Bitcoin network allocates 12.5 bitcoins [~ $30,000] to the miner.
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- When more people accept bitcoin or other cryptocurrencies for goods and services, their value increases.
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- There is therefore no way for a central bank to issue a flood of new Bitcoins and devalue those already in circulation.
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- The entire network is used to monitor and verify both the creation of new Bitcoins through mining, and the transfer of Bitcoins between users.
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- A log is collectively maintained of all transactions, with every new transaction broadcast across the Bitcoin network.
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- Participating machines communicate to create and agree on updates to the

official log.
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- Bitcoins can be bought and sold in return for traditional currency on several exchanges, and can also be directly transferred across the internet from one user to another using appropriate software.
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- This makes Bitcoin a potentially attractive currency.
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What is their true value?

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- The real answer is no one knows.
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- Unlike fiat currencies, whose long-term relative values are driven by differentials in purchasing power, we do not have a good understanding of what determines the long-term relative value of these cryptocurrencies.
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- Yet investors have increased the acceptance of various versions of blockchain technology and its currency units.
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How prevalent are bitcoins?

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- Since 2014, the American tax authorities have treated cryptocurrencies as ‘property’ subject to appropriate capital gains tax rate.
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- Japan and Australia deemed bitcoin as a legitimate payment method in 2017.
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- Chinese authorities have aggressively stepped in to ensure cryptocurrency exchanges function well.
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- But the successive Indian governments have ignored cryptocurrencies.
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- Only in April 2017 the Indian government constituted an inter-disciplinary committee to study regulatory frameworks for cryptocurrencies.
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What should the government do?

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- It should follow China, South Korea, and Japan.
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- It should enshrine minimum capital requirements, force segregation of customer accounts, and make potential criminal activity difficult.
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- Failing to help structure the growth of cryptocurrencies will drive the whole enterprise underground beyond its control.
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Source: The Hindu

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