

CRYPTOCURRENCY AND ITS TAXATION UNDER THE INCOME TAX ACT, 1961

Cryptocurrency has gained significant traction in India as an investment and transactional medium. However, its taxation remained ambiguous until the introduction of specific provisions in the **Finance Act, 2022**. The **Income Tax Act, 1961** now explicitly governs the taxation of Virtual Digital Assets (VDAs), including cryptocurrencies.



Key Taxation Provisions for Cryptocurrencies

1. Definition of Virtual Digital Assets (VDAs)

- As per **Section 2(47A)**, VDAs include cryptocurrencies, NFTs, and other digital assets as notified by the government.

2. Tax on Transfer of Crypto Assets (Section 115BBH)

- A flat **30% tax** (excluding surcharge and cess) is levied on any income from the transfer of VDAs.

- No **deductions** (other than acquisition cost) are allowed against such income.
- Losses from crypto transactions **cannot be set off** against any other income or carried forward.



3. TDS on Crypto Transactions (Section 194S)

- A **1% TDS** is applicable on crypto transactions exceeding **₹50,000 per year** (₹10,000 for specified persons like individuals not engaged in business).
- The buyer must deduct TDS while making the payment to the seller.

4. Gift Tax on Cryptocurrencies

- If cryptocurrency is received as a gift, it is taxable under **Section 56(2)(x)** if the value exceeds ₹50,000, subject to exemptions for gifts received from relatives or on special occasions.

5. GST Implications

- The GST applicability depends on whether the transaction is considered a supply of goods or services, with rates varying based on government classification.



Compliance Requirements

- Taxpayers must **report crypto income** under “Capital Gains” or “Income from Other Sources” while filing their income tax returns (ITR).
- Exchanges facilitating crypto trades must comply with TDS regulations and maintain proper records.

CONCLUSION



The Indian government has taken steps to regulate cryptocurrency taxation through the Income Tax Act, 1961. Investors and traders must comply with these provisions to avoid penalties. While the tax rate is high, the formal recognition of cryptocurrencies under tax laws provides clarity for stakeholders in the crypto space.



CA. Ram Sahni

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