



JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)

An International Scholarly Open Access, Peer-reviewed, Refereed Journal

Status of Crypto currency in India

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Abstract:

Today's world is more dependent on electronic media. Through this electronic media an alternative currency was born, Bit coin. This year Bitcoin turns 13. Recently there are many private crypto currencies playing in the market worldwide. This paper tries to focus on the status of crypto currency in Indian economy. There are many countries banning crypto currency .again in several countries trading on crypto attracts tax burden. This paper tries to find out the legal status of crypto currency in India.

Keywords:

Crypto, Bitcoin, blockbain, legal status, trading mechanism, post pandemic crypto, India wants crypto

Introduction:

The word crypto is coming from Greek word 'krupto' which means hidden or secret. Currency means legal tender i.e. bank notes and coins which can be used to pay debt. When crypto meets currency it becomes digital currency in world of finance. Crypto currency is exchanged through different platforms using computer networks to earn profit by the different investors. Such currency is decentralized, has no authorization and monitoring of government and central bank of any country.

Research methodology:

All information for producing this research paper has been taken from secondary data available on the internet. Different online portals of news channels, online portals of news papers, online portal of financial service providers, research papers of different scholars has been the resource of information used in this paper.

Evolution of crypto currency:

First decentralized crypto currency named BITCOIN, was developed by pseudonymous developer Satoshi Nakamoto in 2009. SHA-256, cryptographic hash function was used in its proof work. Though digital money was conceived in 1983 by American cryptographer David Chaum as cryptographic electronic money named e-cash. Later in 1995 it came into existence as DIGICASH. Crypto currency is following that path. In 2011 Namecoin and Litecoin were introduced by Charlie Lee and Vincent Durham respectively. In 2012 Peercoin was introduced by Sunny king. Then Dogecoin ,Ridcoin ,Primecoin ,Ripple ,Nxt, Auroracoin, Dash ,NEO,Mazacoin,Monero,Titcoin,Verge,Stellar,Vertcoin,Ethereum,Ethereum

Classic, Nano, Tether, Firo, Bitcoin Cash, EOS.IO, Cardano, TRON, Ambacoin, Algorand, Avalanche, Shiva Inu, Polkadot, Deso, SafeMoon were introduced till 2021.

Block chain:

It is a technology that crypto currency uses to store transaction information. This information is stored in a decentralized manner in blocks. All information pertaining to one transaction will not be stored in one place. This makes data secured against theft and hacking. Such blocks are secured with hash. Hash is a cryptographic technique that generates a code and protects the block.



Source:www.pwc.com

Trading mechanism of crypto currency:

To trade in crypto currency the steps to follow are:

1. One investor need to open an account with crypto brokerage platforms like Coinbase,Gemini,E-Toro etc.
2. The investor needs to connect his or her bank account with that particular crypto brokerage platform through Debit card or Wire transfer.
3. After connecting bank account to brokerage platform inventor can buy crypto currency of large market cap like Bitcoin or from small market cap altcoins like Ethereum, Polkadot, litecoin etc. according to risk tolerance of that investor.
4. For experienced investors stock trading strategy may be helpful to trade i.e. buy and sell crypto.
5. An investor can also choose to trade through automated trading bots like eToro, Bitcoin Prime, NET Profit, Tesla coin etc. this may help to protect the investment from huge random fluctuation in market on behalf of investor.
6. Crypto currency needs to be stored if it is bought to hold in future .there are soft wallets and hard wallets available in the market to store crypto. Hard wallets such as iOS , Google chrome etc. soft wallets like Zengo, Exodus etc.

Operation of crypto currency in USA:

Crypto currency in US is not referred as legal tender. Crypto currency exchange is legal in US. **United States virtual currency law** controls the virtual currency in USA. The **commodity futures trading commission** has regulated virtual currency as commodity. **Securities and Exchange Commission** has also requires registration of any virtual currency traded in US. **Internal revenue service** describes virtual currency as “a digital representation of value that functions as a medium of exchange, a unit of account, and/or store of value(and)does not have legal tender status in any jurisdiction”. Internal revenue service treats virtual currency as property and requires gains and losses upon exchange to be

calculated. **Financial crimes enforcement network (FinCEN)** released a paper stating that exchanges and administrators of virtual money is subject to **Bank Secrecy Act** and must register as money services business. This legislation aims to prevent money laundering and financial crime.

Status of crypto currency in **China**:

In 2011 first crypto currency exchange, BTC china opened. In 2013 crypto currency was accepted as payment for services. In 2014 bitmain was introduced as crypto currency mining equipment. During 2016-2017 crypto currency mining grew. In 2017 china government banned initial crypto offering. In June 2021 all mining ceased. In July 2021 Bishijie shut down its website and app, BTC china announced its exit. On November 2021 US library congress recognized crypto currency ban in China. This has led the path to development of legal digital currency e-CNY, CHINA'S digital YUAN.

Status of crypto currency in **UK**:

In UK crypto currency is not legal tender. But crypto currency is assumed to be property. The Financial Conduct Authority (FCA) and Bank of England have set warnings and guidance about the use of crypto currency. HER MAJESTY'S REVENUE AND CUSTOMS (HMRC) has issued tax treatment of crypto currency in 2021. On 6th January 2021, FCA banned retail crypto currency to protect customers from market volatility. In January 2022 UK government strengthened the legislation to address misleading crypto asset promotion. In March 2022 UK office of sanctions implementation (OFSI) and financial conduct authority (FCA) and the bank of England released a statement jointly to remind the crypto service providers about their responsibility to contribute to sanction enforcement.

Status of crypto currency in **EL SALVADOR**:

President of El Salvador has announced his intentions to make Bitcoin legal currency at Miami Conference 2021. Then on 7th September bitcoin was announced legal tender in El Salvador. This move was to spur the financial condition of this under developing country. The government of El Salvador introduced CHIVO WALLET app to deal with crypto. It also conducted wide campaigns to make people aware of use of e-wallets.

Review of literature:

Though gold has been identified as better element to invest than investing in crypto currency. (dr.mubarak, hosmani manjunath, a study on crypto currency in India), but crypto currency has wide acceptance in many countries, so banning crypto currency may not be an option to India, instead this industry may be regulated (dr. anil kumar v.v, swathy p., a study on opportunities and challenges of crypto currency in India with special reference to bitcoin). Crypto currency can be introduced as LAKSHMI coin which may attract investor in general upgrading INDIA to next level of E-commerce (a study on crypto currency in India-boon or bane, mr.j.p.jaideep, mr.k.rao.prashanth jyoti). Some investors in Bangalore would like to have crypto currency as a part of their portfolio but they are afraid of losing money as crypto currency is not regulated by Indian government (swati shukla, akshay a., a study on the awareness and perception of crypto currency in Bangalore). Big investors are more positive than small investors in India; investors of urban area is more positive than the investors of rural area about the future of crypto currency in India (s.s.doshi, a study of opinions on future of crypto currency in INDIA).

History of crypto currency in **India**:

Up to 2012: some of the Indians went on mining; some of them continued trading on MtGox, Poloniex without KYC, with huge risk.

2013: UNOCOIN is the first crypto currency exchange app in INDIA. It was founded in 2013. It has its headquarter at Bangalore. Founders are Harish B.V., Sunny Ray, Avinand Kesati, Sathvik Viswanath.

On 24th December, 2013 RBI made press release:

1. Virtual currencies are not backed by CENTRAL BANK
2. Crypto currency held and transacted through E-wallets which may be exposed to hacking leading to permanent loss to investors
3. There is no regulation for payment, so no benefit of consumer grievance redressed.
4. There is no underlying asset value to crypto currency, so matter of speculation and high volatility.
5. Investors may be unknowingly part of money laundering and financing of terrorism.

2014-15:

Some investors in India continued trading crypto currency. Price of bitcoin, pioneer in crypto currency, was ₹28256.88 on 31december,2015. Bitcoin price surged to ₹64212.11 on 31december 2016.

2016-17:

Due to Demonetization in India many tech savvy investors' dependence upon e-money increased. Unintentionally it also gave a boost to crypto investment. This pushed RBI to make press release on 1st February:

1. RBI has not given any authorization to anybody to operate with virtual money including bitcoin.
2. RBI reiterates about the high-risk associated with dealing with virtual currency to the investors.

2018:

Though such caution investors continued trading with crypto currency .In march 2018 CBDT (Central Board Of Digital Tax submitted a draft to the finance ministry to ban crypto currency. on 6th april,2018 RBI made a notification to all commercial and co-operative banks ,NBFCs and payment portals prohibiting all sorts of dealing with virtual currencies and prohibiting any service relating to virtual currency under Banking Regulation Act 1949,Reserve Bank Of India Act 1934 and Payment And Settlement System Act 2007.after this order passed exchanges froze, prices for crypto currency fell down. many technical assistants flew abroad where still crypto currency was active.

2019:

Draft of Banning of Crypto currency And Regulation of Official Digital Currency Act, 2019 came. It recommended jail up to ten years for people who mine, generate, hold, trade, transfer, dispose of or deal with crypto currency. This bill stated that there would be an official digital currency which would be regulated and circulated by government of India through RBI. 2020:

After banning crypto currency by RBI , Nischal Shetty, founder of WazirX, a crypto platform, started a campaign #indiawantscrypto in 2018.this movement was also supported by other founders of crypto currency platform like Unocoin etc. after that on 4th march 2020,a three judge bench of Supreme Court had quashed the ban that RBI had imposed on trading in crypto currencies like Bitcoin.

2021:

On 2021 at Lok Sabha the **Crypto Currency and Regulation of Official Digital Currency Bill 2021** was proposed to create a facilitative framework for creation of the official digital currency to be issued by RBI .this bill also sought prohibition of all private crypto currencies in India. However for certain exceptions it allows to promote the underlying technology of crypto currency and its uses. 2022:

On 25th march 2022 Lok Sabha passed the Finance Bill in which u/s 115 BBH, there would be a new levy on virtual digital assets from 1st April. It introduces the following:

- Any income from the transfer from virtual assets would be 30%.
- there also would be 1% Tax Deducted At Source for transactions over ₹10000 in a year
- There would be Gift Tax in the hand of recipient of the VDA as gift.
- No loss can be set off against income from transfer of virtual digital asset (VDA).

In India there is estimated 15 million to 20 million people investing in crypto contributing to \$5.34 billion

Perils of crypto currency in India:

- Prices of virtual digital assets are driven by demand; they do not have any intrinsic value. Value of such asset is not based on discounted cash flow, growth rate or risk.
- Prices of crypto currency are volatile; it can drop by hundreds of dollars within a minute.
- Crypto currency can only be held and traded through online platforms though e-wallets, so investors money is exposed online .such online wallets may be hacked, leading to permanent loss to investors.
- Crypto currency is not authorized and supported by central government of India, Reserve bank of India or Securities Exchange Board of India. So any discrepancy, fraudulent activity cannot be reported against the crypto platforms by the investors. Investors' interest remains unprotected.
- Almost all crypto currencies are dollar dominated. They are issued by foreign private entities. According to RBI officials crypto investments may lead to "DOLLARISATION" of the part of economy of India which may go against sovereign interest of country.
- Crypto currency may have potential to become medium of exchange and can replace regular currency like "rupee". According to RBI official crypto currency can replace monetary system weakening the capacity of RBI to regulate the flow of money in Indian economy. This may lead to terror financing, money laundering.
- Becoming medium of exchange crypto currency may increase flow of currency in Indian economy subject to limited goods produced. This situation may lead to **inflation** which would have adverse effect on economy.
- In the post pandemic era USD's purchasing power against crypto currency like bit coin fell. November 2021 making all time high \$69000 Bit coin's value became down trend. So it cannot be taken as aid to inflation.

Positivity of crypto currency towards economy:

- Crypto currency being virtual asset totally depends on digital technology. If crypto currency is regularized then it can create huge job in the field of computer technology, financial analysis, software development etc.
- NASSCOM has stated that India's crypto currency market is expected to reach up to \$241 million by 2030.
- Crypto currency is accessible for 24x7 hours, so investors can take part in the trade at any point of the day.
- Government is to generate official digital currency in future

Post pandemic effect on crypto currency:

- Covid 19 shocks enhances Litecoin by 3.2%-3.84%,Bit coin by 2.71%-3.27%,Ethereum by 1.43%-1.75%,bit coin cash by 1.34% -1.62%.
- Profitable investment opportunities are prevailing in pandemic times.
- GenZ and technology graduates are leaning on such investments with its popularity.
- Some of the investors are trying to invest on crypto after several covid19 waves leading lockdowns making huge financial crash in regular share market.

Conclusion--Future of crypto currency in India:

After union budget2022-23 government has come with finance bill 2022, where virtual digital assets (VDA), non fungible tokens (NFT) are coming under taxation. Moreover our finance minister has stated in her budget speech that a proposal to introduce official digital rupee using block chain and other technology by Reserve Bank of India starting in 2022-23 has been made. This effort of government may establish stability in virtual digital currency market. Financial and physical effort of public to money management may be eased. Government's modern attitude towards official digital currency may create more jobs. A strong financial policy with alternate digital money may help India to achieve its goal to become a developed country.

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