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CRYPTOCURRENCY AND TAXATION: ISSUES FOR INDIAN POLICYMAKERS- A REVIEW

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ABSTRACT:

The emergence of cryptocurrency has radically threatened traditional fiscal institutions, presenting Indian policymakers with an unrivaled challenge in tax administration and revenue generation. This review takes into account the multifaceted complexities of taxation of cryptocurrency in India, addressing regulatory uncertainties, enforcement issues, and the relevance for tax revenue composition. Drawing on policy trends and scholarly literature at the moment, the present paper investigates India's evolving stance on digital assets—from absolute skepticism to cautious engagement—and how this reflects deeper anxieties around innovation and control. The argument draws on strategic management, technology disruption within financial markets, and organizational change management to situate India's policy measures in context. Even as the 2022 budget introduced specific tax provisions for virtual digital assets, significant concerns continue to exist about mechanisms for compliance, global coordination, and long-term viability of prevailing strategies. India's cryptocurrency taxation regime is discovered to be in the early stages, with adaptive strategies required to reconcile revenue and technological innovation.

KEYWORDS:

CRYPTOCURRENCY TAXATION, VIRTUAL DIGITAL ASSETS, INDIAN TAX POLICY, REGULATORY CHALLENGES, BLOCKCHAIN TECHNOLOGY, TAX COMPLIANCE, DIGITAL ECONOMY.

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INTRODUCTION

Cryptocurrency hasn't simply landed in India—it's come crashing through the front door, uninvited and with everyone in the room left in a daze. What started out as a enthusiast technology for computer buffs has escalated into a multi-billion-dollar phenomenon that's left tax authorities stumbling to keep up. The question underlying it isn't whether these digital assets need to be taxed more; that was decided when Finance Minister Nirmala Sitharaman imposed a 30% tax on crypto gains in the 2022 Union Budget. The question keeping policymakers awake is how best to actually enforce and apply those regulations in a space specifically designed to be boundary-less and, to some extent, faceless.

The concerns at stake extend beyond technical tax administration in this case. Tax income blend in third world economies like India is based to a significant extent on traceable, identifiable income streams (Mehta, n.d.). Cryptocurrency, by definition, complicates this. We're talking about assets that pass across global borders in seconds, stored in digital wallets that don't exist and everywhere at once, and sold on exchanges which might not even have a presence anywhere in India (Chohan, 2017). This creates what some might call a perfect storm for tax avoidance—although others would say it's only a system that still hasn't caught up with the times.

The decentralized aspect of blockchain technology presents the regulatory authorities with new challenges which traditional financial supervisory mechanisms were not designed to handle (Kshetri, 2017). Unlike conventional financial institutions that operate within demarcated jurisdictional boundaries, cryptocurrency networks are based on a global distributed infrastructure, making it extremely cumbersome for any single nation's tax authorities to monitor transactions in its entirety.

The Regulatory Landscape: From Confusion to Cautious Clarity

India's ride with cryptocurrency has been rocky, at best. The Reserve Bank of India's bank ban on cryptocurrency

payments in 2018 was a chilling one that wasn't rolled back until the Supreme Court stepped in to do so in 2020. This rollercoaster is indicative of something important about policy responses to technological upheaval: they're rarely rational or straight-line. Strategic management theory suggests that organizations facing disruptive change tend to have to play defense and adapt at the same time (Chaplot, 2018). India's crypto taxation policy evidences this conundrum—struggling to regulate something it does not fully understand and accepting that prohibition is impossible.

The addition of Section 115BBH of the Income Tax Act brought cryptocurrency into the tax ambit with a flat 30% tax on gains, except with no deductions except cost of acquisition. Otherwise, a 1% Tax Deducted at Source (TDS) on all transactions in cryptocurrency was imposed. These measures reflect intent but do not always seek to solve the underlying problems. Empirical research on effective tax policy shows that compliance depends not only on statutory rates, but also on tax system fairness and administrative simplicity (Ram &Maroun, 2020). Consider the real-world issues: How do you determine a person's cost of acquisition if they have purchased Bitcoin on an offshore exchange several years ago? What if the transactions are on decentralized systems where no intermediary is to collect TDS?

Regulatory ambiguity that characterized India's initial reaction to cryptocurrency echoes patterns observed in previous technological disruption that was affecting various sectors. Economic downturns and technology shifts have long made responsive organizational adjustments obligatory (Choudhary &Madhwani, 2013), and the test of cryptocurrency requires such institutional resilience.

TECHNOLOGICAL DISRUPTION AND ACCOUNTING CHALLENGES

Impact of machine learning and artificial intelligence on accountancy has been tremendous (Dr. Mohammed Abid &RamswaroopBhambi, 2025), but the same technology that assists in improved financial reporting can create more sophisticated tax evasion. Blockchain technology-underpinning cryptocurrency-handles transactions to create immutable records, and that should in theory make it easier to comply with taxation. Pseudonymous nature of the majority of crypto transactions means, however, that attributing them to taxpayers remains problematic.

Traditional accounting and auditing processes were not designed for assets without physical form (Dr. Mohammed Abid & Harsha Lohar, 2025). What does an auditor do when someone tells them they've lost their crypto wallet? How does an auditor confirm such a statement? When transactions are made through smart contracts that execute automatically when specific conditions are fulfilled, who ensures the taxes are calculated and paid? These are not hypothetical ones—these are real issues Indian taxation authorities struggle with on a daily basis.

The integration of blockchain and cryptocurrency in to existing financial reporting frameworks requires fundamental reconceptualization of asset classification and valuation paradigms (Hughes & Middlebrook, 2015). Inherent volatility of crypto markets aggravates these issues as positions can fluctuate in value by orders of magnitude in hours, challenging appropriate valuation dates for taxation.

INTERNATIONAL PRECEDENTS AND INDIA'S POSITION

Internationally, India is not alone in struggling with crypto taxation. United States uses cryptocurrency to property and taxes it as capital gains. Singapore is less taxing, with no capital gains tax on crypto held as a long-term investment. Japan taxes crypto as miscellaneous income at progressive tax rates. The fascinating aspect of India's 30% flat rate is that it is both benevolent and cruel—benevolent in the sense that it does not increase with the level of gain, but cruel in that it is above long-term capital gains rates on most types of assets.

This global non-harmonization opens up the space for arbitrage in regulation. Indian investors in cryptocurrency, at least theoretically, can shift their trading business to places with more advantageous tax policy (Bal, 2015). The transnational nature of cryptocurrency makes enforcement of national tax laws particularly challenging. Without robust systems of international cooperation, countries such as India face a difficult task in securing compliance.

Cross-border tax challenges have intensified with digital assets because traditional nexus rules and permanent establishment concepts are inadequate to capture business models without physical presence yet enormous economic activity in a jurisdiction (Somare&Wohlfeil, 2020). The attempt by India to tax virtual digital assets therefore must counter jurisdictional uncertainties that were not designed into existing international tax standards.

REVENUE IMPLICATIONS AND ECONOMIC CONSIDERATIONS

Tax revenue composition is of significant interest to emerging economies (Mehta, n.d.). The revenue situation of the Indian government, particularly in the event of economic upsets—either from international economic downturn affecting industry lines like tourism and hospitality (Choudhary &Madhwani, 2013) or otherwise structural problems—such that every available source of tax revenue is of interest. Cryptocurrency is both opportunity and threat. On the one hand, it would imply substantial revenue given India's vast and tech-savvy population. It is estimated that millions of Indians hold cryptocurrency with a value of billions of dollars.

Alternatively, too much aggression in taxation could only push activity into the underground or offshore economy. The 1% TDS, though small, puts drag on high-frequency trading models. To individuals with dozens or hundreds of transactions daily, that 1% adds up to real cost and can make India-based trading economically impractical. We're seeing it already—volumes on Indian exchanges declined

quite substantially as soon as the TDS came into effect, while volumes on foreign platforms accessible to Indian users held steady or picked up.

Empirical evidence from other economies suggests that the tax policy of cryptocurrency must walk a tight line between revenue objectives and the risk of driving economic activity on to less-controlled platforms (Marian, 2013). The issue gets particularly acute for developing economies like India, where capital flight is a perpetual challenge and where technological support infrastructure for tracing cross-border digital transactions continues to remain in its infancy.

Change management in medium-sized organizations requires complex planning and stakeholder engagement (Mehta &Hiran, 2023). Similarly, so is it with government agencies to make changes to combat the challenges of cryptocurrency. The Income Tax Department, Central Board of Direct Taxes, and Enforcement Directorate need to develop new capabilities, conduct training for the personnel, and employ technological interventions to monitor crypto transactions effectively. It is not just an issue of buying new software—it is radical shifts in the way such organizations operate.

Consider the investigative challenge. Traditional tax probes rely on paper trail evidence—banks' records, invoices, receipts. Crypto probes require blockchain forensic analysis skills, understanding of mixing services and privacy coins, and cooperation with foreign exchanges that are not always obligated to assist. Building these skills takes time, manpower, and talent that's in short supply within government offices.

Organizational effectiveness against disruptive technological revolution depends significantly on strategic alignment of capacities and objectives (Chaplot, 2018). In the case of India's tax office, this would mean not only altering existing processes but reimagining the enforcement strategy for an asset class that defies conventional categorization.

COMPLIANCE AND ENFORCEMENT GAPS

The elephant in the room is compliance—or, rather, its lack. Even as the tax provisions are written down, there are still enforcement mechanisms in the works. Indian crypto holders act generally on the belief that tax authorities are not technically equipped to track their transactions. The belief is not precisely groundless. In the absence of needed reporting by exchanges and lacking in useful means of analyzing blockchain data, the tax department operates in part blindness.

Peer-to-peer dealings add a further layer of complexity. If two individuals exchange cryptocurrency wallet to wallet, there is no middleman to report the transaction, no TDS mechanism, and limited visibility for tax authorities. The onus falls on taxpayers to self-report, and history suggests voluntary compliance with uncertain or complex tax rules is low.

Tax compliance behavior evidence indicates that enforcement credibility—whether or not taxpayers perceive that cheating will be detected and punished—strongly influences voluntary compliance rates (Hoppe et al., 2019). India's current cryptocurrency tax regime suffers from a credibility issue in that the limited technical expertise of the enforcement agencies continues to be widely acknowledged by market participants.

The anonymity features embedded in a few cryptocurrency protocols also render the enforcement process more difficult. Cryptocurrencies like Monero and Zcash employ cryptographic techniques that conceal transaction data, rendering fund flows nearly impossible to trace for tax authorities (Foley et al., 2019). Though these are modest fractions of the entire crypto space, their existence serves as evidence of the inherent vulnerability of surveillance-dependent enforcement strategies.

POLICY COHERENCE AND DEFINITIONAL CHALLENGES

Another oft-forgotten consideration in the India cryptocurrency taxation conundrum concerns some elementary definitional issues. The phrase "virtual digital asset" used in the 2022 budget covers a sweeping variety of instruments ranging from Bitcoin and Ethereum to NFTs and quite possibly even online game digital items. Such definitional scope brings uncertainty as to what assets are covered in the tax net and which are not.

Also, the tax treatment of activities involving cryptocurrency beyond buying and selling is unclear. Mining, staking rewards, lending liquidity in decentralized finance protocols, airdrops, hard forks—all these activities generate value in some form, and it's unclear how existing tax provisions address them. Absence of specific guidance leaves taxpayers uncertain of their obligation and tax authorities uncertain of the boundaries of enforcement.

International experiences reveal that definitional specificity matters above all else to effective tax administration in the context of cryptocurrency (Bal, 2015). Uncertain or very vague definitions open the door to tax evasion through strategic description of transactions, whereas overly specific definitions risk leaving economically relevant activities outside the tax base.

THE PATH FORWARD: POLICY RECOMMENDATIONS

Strategic management theories all indicate toward environmental alignment as crucial (Chaplot, 2018). For Indian crypto taxation policy, that means a few things. First, advice needs to be more explicit—taxpayers need to understand not only the rates of taxes but also how they are calculated under different categories of crypto transactions. Staking rewards, airdrops, NFT sales, DeFi lending—each raises different tax challenges which current guidelines barely address.

Second, technology infrastructure must be taken seriously. Other nations have been able to introduce blockchain analytics tools that assist tax administrations in flagging high-value holders and monitoring unusual patterns of suspicious transactions (Kshetri, 2017). India must look

into similar options, perhaps collaborating with niche firms who already have this capability.

Third, worldwide cooperation will not be a matter of choice. Cryptocurrency is global, and effective taxation requires global cooperation (Somare&Wohlfeil, 2020). India must be an engaged participant in worldwide forums discussing crypto regulation and encourage mutual information-sharing agreements for digital assets. The OECD Crypto-Asset Reporting Framework is one such promising platform for such cooperation in the form of implementing standardized reporting rules for cryptocurrency exchanges as well as service providers.

Fourth, the policy must be designed to reward and incentivize, rather than only punish. The design of tax systems that reward taxpaying voluntary disclosure and compliance—perhaps by offering safe harbor from audit or reduced rates on well-disclosed transactions—can be more effective than relying on detection and punishment. Evidence based on behavioral economics suggests that tax policy design has a significant effect on compliance decision that transcends simple rate mathematics (Hoppe et al., 2019).

Lastly, the policy framework must be adaptable. Crypto technology advances very quickly—what is current today regarding DeFi or Layer 2 technologies may be outdated tomorrow. India's tax policy must have mechanisms for adaptability without necessarily needing legislative intervention every time new evolution occurs. This could be through granting greater rule-making powers to administrative bodies with technical knowledge, enabling faster adaptation to market innovations.

BROADER ECONOMIC IMPLICATIONS

Beyond short-term income issues, India's policy on taxing cryptocurrencies has far-reaching consequences for the country's hopes of a digital economy. India has made significant investments in positioning itself as a center of digital entrepreneurship and tech innovation. Very restrictive or unclear cryptocurrency regulations can scare off an entire generation of tech entrepreneurs and developers who see blockchain technology as a foundation for future innovation.

The brain drain concern is not theoretical. Anecdotal evidence shows that Indian cryptocurrency entrepreneurs have migrated to nations with cleaner, less cumbersome regulatory systems (Kshetri, 2017). Taxation, admittedly, does not determine these migrations on its own, but it is a component of the general regulatory system that creates or repels innovation.

On the contrary, there is justification for the conservatism of the government. Cryptocurrency markets have been hyper-volatile, and retail investors, particularly in developing economies, have lost tens of millions of dollars. The lack of consumer protection frameworks in cryptocurrency markets justifies regulatory skepticism. Balancing innovation with consumer protection is one of the greatest challenges for policymakers.

CONCLUSION

India's crypto-taxation regime is a work in progress—visionary in intent but lacking in implementation. 30% taxation and 1% TDS clearly convey the government's desire to raise revenue from this new asset class. Big compliance gaps remain in mechanisms, enforcement powers, and international coordination, though. Indian policymakers' challenges are not unique, but they're amplified by India's huge crypto user base, relatively less advanced supervisory architecture, and need to balance revenue raising with facilitating innovation in the digital economy.

The technological expertise required to effectively handle cryptocurrency taxation requires institutional capabilities India's tax administrations are still building (DR. MOHAMMED ABID & HARSHA LOHAR, 2025). At the same time, organizational change management required to align bureaucratic arrangements with digital-age requirements mirrors broader changes occurring in public and private sectors (Mehta &Hiran, 2023).

Balancing this is crucial for both tax revenue and India's overall goal in the global technology space. India stands at a crossroads—it can establish a mindful, well-conceived system that brings in revenue while enabling innovation, or it can proceed to keep regulatory uncertainty and enforcement susceptibility, a space where neither revenue collection nor innovation will be successful. The path forward requires more precise direction, improved technical capabilities, international coordination, and most importantly, an appreciation of how cryptocurrency taxation is not merely a technical tax issue but a strategic issue with wider implications for India's future in the digital economy.

Perhaps what India actually needs is not so much enhanced cryptocurrency tax policy, but a fundamental rethink of how tax administration can function in a more digital, borderless world. Cryptocurrency has brought into sharp focus the weaknesses of tax systems that were designed for a bygone era. Getting the weaknesses right might not only make India a good cryptocurrency taxer, but a leader in fiscal government for the digital era.

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