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Govt to fine tune definition of income and gains for crypto assets.

by Sachin Dave and Saloni Shukla

Cryptocurrencies, which are not defined either as currency, asset, commodity or service in India, might soon be highly taxed. The government is looking to fine tune the definition of income and gains for crypto assets in the upcoming Budget.

It has sought opinion of senior tax advisers on whether the income earned from trading or investing in cryptocurrencies could be treated as business income as against capital gains, said two people involved in the discussions.

This would mean that the income tax on returns for investors or traders could be as high as 35% to 42% going ahead.

“If the definition of income is changed in the tax framework then it could give leeway to the tax department to charge income tax on any gains accrued from investing and trading in cryptocurrencies,” said Dinesh Kanabar, CEO, Dhruva Advisors, a tax advisory firm.

The government is also looking to articulate how returns are calculated for crypto investors. That is, Indians who



have seen their cryptocurrencies appreciate during the year and have traded them for other crypto assets without converting them to fiat or INR will also face taxation.

“Even if the payment for any asset, say a painting, is made in cryptocurrencies, it’s still an income in the hands of the receiver. As cryptocurrency has an underlying value in Indian rupee, it should be taxed as an income,” said Sudhir Kapadia, national leader-tax, EY India.

Apart from that the government could also slap GST on crypto trade, and the amount could be borne by the investor.