

Everything about

Crypto Taxation



What are Virtual Digital Assets?

- As per the Finance Bill 2022, any information or code or number or token (not being Indian currency or foreign currency), generated through cryptographic means or otherwise, by whatever name called, providing a digital representation of value exchanged with or without consideration, with the promise or representation of having inherent value, or functions as a store of value or a unit of account including its use in any financial transaction or investment, but not limited to investment scheme; and can be transferred, stored or traded electronically.
- These Virtual Digital Assets represent a Store of Value and cannot be used to buy Goods and Services.
- Any other digital asset, as the Central Government may, by notification in the Official Gazette specify: Provided that the Central Government may, by notification in the Official Gazette, exclude any digital asset from the definition of a virtual digital asset subject to such conditions as may be specified therein.

Taxes on Virtual Digital Assets

- Income or Profits made from VDAs are taxable at a flat rate of 30%.
- The Flat rate of 30% applies irrespective of
 - Holding period
 - Individual Tax Bracket
 - The nature of the transaction
 - Whether you are a private investor or a commercial investor
- VDAs are taxed under “Income from other sources” similar to lottery winnings, and income from interest on FDs

Are Cryptos taxable?

Cryptos fall under the definition of Virtual Digital Assets as per the Finance Bill 2022. Income or Profits generated from the Sale of Cryptos are taxable at a Flat rate of 30% without exception

Are NFTs taxable?

Non Fungible tokens (NFTs) are included in the definition of Virtual Digital Assets as per the Finance Bill of 2022. Income or Profits generated from the Sale of NFTs are taxable at a Flat rate of 30% without exception.

Are Stablecoins taxable?

The Finance Bill has not specifically mentioned Stablecoins. Since Stablecoins are also based on Cryptography, they would have to meet the criteria of VDAs. However, the Central Government may choose to notify or denotify them as mentioned above.

Are Tokens taxable?

The Finance Bill has not specifically mentioned Tokens. Since Tokens are also based on Cryptography, they would have to meet the criteria of VDAs. However, the Central Government may choose to notify or denotify them as mentioned above.

More details on different Crypto income sources?

The Finance Bill 2022 has not mentioned any details about Crypto mining, staking, lending, and borrowing. It is advisable to speak to an expert in such matters. Income earned through interest from such scenarios can be included under “ Income from other sources” in your IT returns. The Applicable tax rates, in this case, would be the slab rates as per taxpayer income.

TDS on Crypto

- Tax deduction at source (“TDS”) will be applicable on the transfer of ‘Virtual Digital Assets’, including crypto assets and NFTs, from July 1st, 2022, as per Section 194S of the Income Tax Act.
- One of two slabs of TDS applies to a crypto asset transfer
 - 1% - if the receiver has filed Income Tax Returns, or
 - 5% - if the receiver is a specified person under Section 206AB of the Income Tax Act. In either case, the TDS is on the net transaction value.
- The deducted TDS amount will reflect in your Form 26AS within the prescribed timeline of TDS return filing. This tax can be claimed from the Income Tax department while filing your yearly income tax return.
- When is TDS applicable?
 - INR-to-Crypto (F2C) Buy Orders - No TDS applicable
 - Crypto-to-INR (C2F) Sell Orders - 1% TDS applicable on net order value
 - Crypto-to-Crypto (C2C) Buy & Sell Orders - 1% TDS applicable on net order value

Illustration: Let us explain how a TDS deduction happens on Zebpay through an example

Your order information will appear as follows if you make a Sell order for 1 BTC at INR 20,00,000:

- Order value = INR 20,00,000
- Transaction fees* (0.25% of 20,00,000) = INR 5,000
- TDS applicable (1% of 19,95,000) = INR 19,950
- Final Calculation (Actual receivable amount) = INR 20,00,000 - (5,000+19,950) = 1,975,050.

* Transaction Fees may vary depending on the tier you belong to.

TDS deductions made in respect of your transfers will be specified in the ZebPay app.

How to calculate your Crypto Taxes?

*The examples shown are for illustrative purposes only

Taxes in case of gains

Transaction	Price	Quantity	Traded Value	Realised Profit/loss
Purchase of 1 BTC	INR 1,00,000 (at the time of buying)	1	INR 1,00,000	
Price of 1 BTC goes up to INR 2,00,000				
Sale of 1 BTC	INR 2,00,000	1	INR 2,00,000	INR 1,00,000
Realised Profit / loss				INR 1,00,000
Taxable Profit/ loss				INR 1,00,000
Tax Applicable : 30%				30%* INR 1,00,000= INR 30,000
Net Profit after Tax				INR 70,000

Table 1.0

Taxes in case of losses

Transaction	Price	Quantity	Traded Value	Realised Profit/loss
Purchase of 1 BTC	INR 1,00,000 (at the time of buying)	1	INR 1,00,000	
Price of 1 BTC goes up to INR 2,00,000				
Sale of 1 BTC	INR 50,000	1	INR 50,000	-INR 50,000
Realised Profit / loss				-INR 50,000
Taxable Profit/ loss				INR 0
Tax Applicable : 30%				INR 0
Net Profit after Tax				INR 0

Table 2.0

Taxes when there is a combination of Profit and loss

Transaction	Price	Quantity	Traded Value	Realised Profit/loss
Purchase of 1 BTC	INR 1,00,000 (at the time of buying)	1	INR 1,00,000	
Price of 1 BTC rises to INR 2,00,000				
Sale of 1 BTC	INR 2,00,000	1	INR 2,00,000	INR 1,00,000
Purchase of 2 ETH	INR 1,00,000 (Price of 1 ETH)	2	INR 2,00,000	
ETH price falls to INR 500,000				
Sale of ETH	INR 50,000	2	INR 1,00,000	-INR 1,00,000
Realised Profit / loss				INR 0
Taxable Profit				INR 1,00,000 (From sale of 1 BTC)
Tax Applicable : 30%				30% * INR 1,00,000 = INR 70,000

Table 3.0

Can Capital losses be offset by Capital gains?

No. As shown in the example in the previous section(Table 3.0), Capital losses cannot be offset by Capital gains. While there is no tax applicable to losses on the sale of Crypto, profits are taxable at a flat rate of 30%.

Are there any Crypto transactions that are not taxable?

- Transfer of Crypto assets from one wallet to another of the same person is not Taxable
- HODLing is not taxable. HODLing is when an investor holds a Crypto asset or stores a Crypto asset in his/her wallet (wallet could be an exchange wallet or a personal wallet) without selling it.

Miscellaneous scenarios

Can there be a carry forward of loss/profit from one financial year to the next?

The loss on Crypto in one financial year cannot be set off against a profit made in another year. Taxes applicable on Crypto earnings are payable every year.

What if I receive Crypto as a Gift?

The Income-tax Act has a special provision for taxation on movable and immovable gifts. Gifts from relatives are exempted as per the IT Act irrespective of the value. People who receive Crypto as a gift must do their due diligence to see who fits the definition of “ relatives” as per the IT Act. Any gift which exceeds the amount of INR 50,000 from a non-relative will be taxable at the hands of the recipient based on the occasion on which the gift is being received.

What about earnings from Play to Earn or Move to Earn games?

Earnings through games and airdrops can be considered Gifts as per the Income-tax Act. The rules mentioned in the previous paragraph apply in the case of Gifts.