



# Investigations on Crypto Exchange Platforms

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## Introduction

A cryptocurrency is a sort of currency in which digital files are used as money. Typically, the files are constructed in the same manner as cryptography (the science of hiding information). Cryptocurrencies use 'decentralized control,' which means they are not controlled by a single individual or government. In 2009, Bitcoin was the first cryptocurrency to be released. The number of new cryptocurrencies that have been generated has increased dramatically as a result of this, with some of the most well-known of them being Bitcoin, Ethereum, Zcash, Dash, and Ripple, amongst others. Bitcoins are progressively gaining popularity in India, owing to the government's efforts to transition to a cashless economy. However, it is important to note that bitcoins are not currently centralized or regulated by any specific agency, such as the Reserve Bank of India, which is in charge of administering actual currency in India. As a matter of fact, bitcoin transactions between two people are controlled by a system known as blockchain technology, which acts as a public record for all transactions.

With the rise of cryptocurrencies and their underlying technologies, we are now at the forefront of a digital revolution. Cryptocurrencies like Dogecoin, Bitcoin, Ethereum, and Monero are digital currencies that can be used to buy online goods and services just like tokens or casino chips. Over 6,700 distinct cryptocurrencies are currently exchanged in the open market. These currencies are one-of-a-kind in technical terms, which complicates their taxation structure significantly. Cryptocurrencies have been the focus of the decade, attracting the attention of tax authorities primarily due to the high prices at which they have been seen trading on exchanges in India and around the world, and the regulatory mechanism of taxation must be determined in light of the current legal landscape. Recently, a half-dozen cryptocurrency service providers' offices have been investigated, and The Directorate General of GST Intelligence (DGGI) has discovered huge Goods and Services Tax (GST) avoidance.

## Taxpayers Take

Taxpayers believe there is currently no clarity on how cryptocurrencies are taxed in India, owing to uncertainty about whether they should be considered currencies, securities, or another form of asset. Income tax rates on returns from various investments range from 10% to 35%. The classification of cryptocurrencies may also have an impact on the GST rates.





Crypto exchanges that facilitate peer-to-peer transactions have stated that they pay GST on the commission charged to customers per trade. In the lack of clear guidance, exchanges are interpreting existing legislation in order to remain compliant.

India does not have any crypto-specific rules in its GST legislation, but the tax interpretations may become more apparent with time. India is complying with an 18% GST on exchange earnings derived from fees and other charges.

Furthermore, the taxpayers claim that "ambiguity around the taxation of crypto assets and a lack of clarity on filing procedures" resulted in "human errors" and a delay in completing GST reports.

Due to an absence of crypto-specific provisions in GST and income tax legislation, the exchange depends on industry experts for guidance that results in tax risk in the entire structure.

The search by DGGI magnified numerous tax positions taken by Indian crypto exchanges that are not acceptable to tax officers, one of which is the commission paid by some exchanges while transacting with their native cryptocurrency. Let's look at an example to help us comprehend this problem.

### Illustration

The exchange platform allows traders to transact in either rupees or their respective native tokens. The native token can only be obtained through their platform. The taxpayer collects revenue from the commission as trading fees, deposit fees, and withdrawal fees. It charges a commission on each cryptocurrency transaction from both the buyer and seller. However, the fee rate for each transaction is different. Assume that a transaction in rupees attracts a 0.2 percent commission, while a transaction in native coin attracts a 0.1 percent commission.

**Transaction in cash** : Taxpayers pay the GST on the brokerage imposed by both the buyer and seller.

**Native coin transaction** : Taxpayers are unsure whether the native coin should be classified as goods or cash. As a result of the ambiguity of cryptocurrency laws and regulations, taxpayers frequently avoid paying taxes on such transactions.

### Departments' Take

According to the tax authorities, Cryptocurrencies are likely to be subject to both income tax and GST. It's a no-brainer that any cryptocurrency profits or income should be taxed in accordance with the capital gains regulations. In a similar vein, if a service is provided as part of the transaction, GST is required to be collected. In terms of taxation, the GST law is crystal clear. In the event of an activity, or if there is a broker who is assisting people and charging a brokerage fee, GST would be levied against the transaction.







According to the tax authority, the margins and services offered by the exchanges should be 18 percent GST, equivalent to the tax that commodity exchanges and other intermediaries are required to pay in India. They facilitate the buying and selling of cryptocurrency coins by acting as an intermediary between buyers and sellers. These services are subject to an 18 percent GST rate of duty, which all of the cryptocurrencies exchange platforms have been dodging since the very beginning.

## Conclusion

In the midst of regulatory ambiguity, cryptocurrency platforms are under increased scrutiny from tax authorities for GST evasion are unsure about "relevant laws" under the country's indirect tax structure. Since the nature of cryptocurrencies is still unknown, the tax authorities should provide specific guidelines on the taxation of exchange and NFT markets.



Thereby, regulatory clarification is critical for the Indian crypto industry





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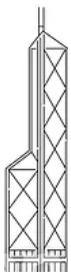
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