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THE ENIGMATIC CRYPTOCURRENCY

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In the era of technological advancement and the virtual world, cryptocurrency is most popular. Is this easily accessible currency recognized by global financial institutions and countries? Is it meant to promote terrorism and the underworld? For investment is it safe or risky? This article addresses above mentioned concerns.

Introduction to cryptocurrency:

Cryptocurrency is a virtual digital asset used as a medium of exchange. An individual's currency is stored virtually in a form of a computerized database using strong and secure cryptography. It uses such secure methods that no transaction can be fraudulent. It is a digital currency that uses decentralized control. Bitcoin was the first decentralized cryptocurrency back in 2009. Ever since bitcoin and other cryptocurrency have been created and are being extensively used.

Cryptocurrency in India:

Reorganization:

In 2018 the Government of India had declared cryptocurrency and bitcoins as illegal tender of money even though no law has been passed for the same or any framework has not been enacted. The Reserve Bank of India (RBI) in its 2018 circular cautioned the citizens against the use of cryptocurrency. It further said that no license or authorization has been given to any individual, entity or company to operate in cryptocurrency. On 4th March, 2020 the apex court i.e. the Supreme Court of India in 'Internet and Mobile Association of India V. Union of India' struck down the Reserve Bank of India's 2018 circular which barred citizens from dealing in cryptocurrency. Hon'ble Justice V. Ramasubramaniam asked the government to take a stand and draft law for cryptocurrency usage in India. Since then cryptocurrency has helped gain a lot of investment opportunities here in India as it is legal to deal in even though the Government has not recognised it and passed any law in this regard.

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Investment:

Even though cryptocurrency is not legally backed up, but it still is being looked at as a great opportunity to invest just like gold especially among millennials as it is a high reward investment but with high risk. It is coined as digital gold by many. Bitcoins and other cryptocurrency are slowly emerging to be mainstream investment class in youth. It is not illegal to buy cryptocurrency in India but at the same time, there is no legal safeguard available to guarantee the safety of investment like regular investments. Section 26 of the RBI Act states that every banknote is legally accepted at any place in India for the amount mentioned on it as it is guaranteed by the Central Government so for cryptocurrency to be legal tender and safeguarded it has to be guaranteed by the Central Government. Hence as of now privately issued cryptocurrency is not entirely safe to invest in. The Central Government and the Reserve Bank of India time and again is cautioning citizens that cryptocurrency is not yet a legal tender of money and they do not have any regulatory protection.

Risk involved:

The Reserve Bank of India cautioned regarding potential financial, customer protection, operational and legality issues regarding any kind of virtual currency. Cryptocurrency transactions are encrypted and are done virtually online which involves the risk of illegal activities such as terror-funding, money laundering, smuggling, drug trafficking, etc. as users will have limited knowledge about the transactions or even may not entirely know about it due to the encrypted nature of transactions. It involves a high risk of easily counterfeiting cryptocurrency or Ponzi schemes to deceive customers. Some other risks involve that cryptocurrency is electronically stored so it can easily be hacked, lost of password, loss of money, etc.

Future Scope and Taxation:

After the Supreme Court's recent judgment, Finance Minister, Srimati Nirmala Sitharaman stated that cryptocurrency is not legal tender and will use all means to make sure that such virtual currencies remain illegitimate. However, she also stated that the Government will use only the Government issued cryptocurrency or blockchain technology and private cryptocurrency will be prohibited.

Since cryptocurrency is not illegal to buy and sell it brings us to taxation policy concerning it. Central Economic Intelligence Bureau under the Finance Ministry of the Government of India, has suggested to the Central Board of Indirect Taxes & Customs that cryptocurrency can be treated as an asset and GST can be levied on the margins made while trading in cryptocurrency. 'Cryptocurrency and Regulations of Official Digital Currency Bill, 2021' is already in pipeline to create and facilitate proper regulation and safeguard for digital currency in India. The bill will only grant the Reserve Bank of India the authority to issue a digital currency and not to any private entity, they may help promote the use of cryptocurrency.

Cryptocurrency around the world:

One of the reasons for the fast-growing cryptocurrency is its fluidity of the term to describe the different products under it. Various forms broadly known as cryptocurrency are similar in a way that all are based on the same type of technology known as blockchain with inheriting encryption. Few terms used by different countries to refer to cryptocurrency are: Digital Currency (Argentina, Australia and Thailand), Virtual Commodity (Canada and China), Crypto-Token (Germany), Cyber Currency (Italy), etc. Countries fall into three categories- pro, partly-pro and against cryptocurrency.

Pro countries:

Some countries see cryptocurrency and blockchains as an opportunity for different reasons. Countries like Spain, Belarus and Cayman Islands do not use cryptocurrency as legal tender but are trying to pass laws in favour of cryptocurrency to attract investment seeing the potential in the technology. Venezuela, Marshall Islands and Eastern Caribbean Central Bank (ECCB) member states have developed their cryptocurrency. Pro countries say online frauds, money laundering, terror-funding, etc are still being done with the existing legal tender of money. By recognising and properly regulating cryptocurrency such issues can be illuminated with the help of new technology. In the era of privatization and globalisation why only the Government should control the medium of exchange, cryptocurrency by private individuals should be allowed and the Government can levy tax on it as it does with other sectors.

Partly-pro countries:

Qatar has banned the use of cryptocurrency by its citizen within the borders but not outside. Bangladesh, Iran, Thailand and China have not barred its citizen from using cryptocurrency but bared financial institutions within their borders to use or issue them. Belgium, South Africa and the UK have issued statements why not to invest in cryptocurrency but also say the size of its market is too small to cause an alarm that it need not be banned or declared unlawful.

Opposing Countries:

Central banks of most countries across the globe issues downfalls of investing in cryptocurrency to educate people about the difference between state-issued and guaranteed currency, and cryptocurrency which are not state guaranteed. Most of the organizations involved in cryptocurrency are not regulated and citizens invest at their own risk knowing that no legal remedy will be available to them in the event of a loss. Such state-issued warnings against cryptocurrency also state that it may be used for irregular activities like money laundering, organized crimes and terrorism. Keeping this in mind countries like Australia and Canada have enacted laws to bring cryptocurrency transactions under the ambit of money laundering and anti-terrorism laws. Morocco, Pakistan, Nepal and Vietnam have altogether banned the use of cryptocurrency.

Taxation:

When it comes to investing in cryptocurrency another issue that arises is taxation. The main concern is how to categorize it and the specific activity involved in purchasing and selling cryptocurrency. This is of great concern as purchasing and selling cryptocurrency is to be categorized as income or capital gains which will determine its tax slab. Now different countries use different methods to categorize cryptocurrency for tax purposes. For instance, cryptocurrency is taxed as an asset in Israel, as a financial asset in Bulgaria, as foreign currency in Switzerland, as property in the USA, subject to income tax in Spain, and in UK corporations pay corporate tax, unincorporated businesses pay income tax, individuals pay capital gains tax. In some countries, cryptocurrency is not even subject to taxation due to the absence of laws and regulations regarding the use of cryptocurrency.