Quit India movement in crypto may accelerate; Singapore, Dubai, US lap up Indian talent

By **Amrita Das** | Mar 26, 2022, 01:37 PM IST (Updated)

Mini

Crypto founders were already leaving India for clearer policies around digital assets. With the government turning crypto tax legislation into law, experts feel the exodus will accelerate even if exchanges have to pay tax on Indian transactions.

Four years ago, ZebPay, an exchange that was processing almost half of all cryptocurrency transactions in India at the time, shut shop and moved to Singapore. The decision wasn't sudden. It was becoming "crippling" for the firm to operate after the Reserve Bank of India banned banks from doing business with crypto exchanges from July 2018. The story was similar for crypto exchange Vauld that moved to Singapore the same year.

Crypto brain drain

Edul Patel, the co-founder of Mudrex, chose to set up his company in the US in 2019. And Sandeep Nailwal, who co-founded Polygon in 2017, relocated to Dubai in 2020. "The brain drain is absolutely crazy," Nailwal recently told Bloomberg from Dubai.

Many other Indian entrepreneurs—30 to 50 by some accounts—have taken their businesses to crypto-friendly jurisdictions, despite a steeper cost of setting up. The prolonged regulatory uncertainty and recent tax blows are not helping the community hold it out in India for much longer. And then the community heard RBI governor Shaktikanta Das saying even tulips have more value, and billionaire investor Rakesh Jhunjhunwala seeking a ban.

Crypto tax legislation becomes law

Finance Minister Nirmala Sitharaman proposed taxing crypto assets at 30 percent from April 1 during Budget 2022-23. She also proposed 1 percent TDS on payments towards virtual digital assets (VDAs) beyond Rs 10,000 in a year and taxation of such gifts in the hands of recipients from July 1.

On March 24, the government proposed tightening the taxation norms by disallowing the set-off of any losses with gains from other VDAs. The community had sought some relief on the tax front. However, the crypto tax legislation became a law on March 25 and amendments sought by the community were not accommodated.

Dubai, US, Singapore take early mover edge

Several countries are still developing crypto frameworks. But Dubai, US, Mauritius, Singapore, and the Cayman Islands have had an early mover advantage in legalising cryptos. According to Shilpa Mankar Ahluwalia, partner and head-FinTech at Shardul Amarchand Mangaldas & Co, they have rules that apply to the issue and governance of such assets.

"The lack of clarity on what the crypto regulatory framework will look like is making investors rethink their decision to make India the base for launching crypto platforms and products," Ahluwalia told CNBC-TV18.

Blockchain developers moving abroad

Even young blockchain developers are flocking to nations where their demand is high. BuyUCoin CEO Shivam Thakral told CoinDesk recently that more than 30 engineers left to work in countries like Dubai, US, and Singapore.

Vivek Belgavi, partner and FinTech leader, PWC, said the skillset of crypto is truly global, and companies are not hesitating to follow "work from anywhere and any country" employment.

"Right now, beyond geographies such as Singapore, Cayman Islands, etc., many Indian crypto companies, developers, and founders are trying to move to Dubai," Belgavi told CNBC-TV18. One selling point for Dubai, Belgavi said, is its "sandbox approach", something India lacks for crypto. "Dubai's proximity to India and transparent and friendly taxation regime also works," he said.

Kriti Gupta, an early-stage investor at Sequoia Capital, recently said that one in every four Web3 founders she met in Dubai in mid-March was not living in Dubai but were in the process of moving.

Work from anywhere

Belgavi agreed. "Given the nature of the business, i.e. entirely virtual, such a (crypto tax) regime will surely drive business overseas. If the businesses continue here, with the tax burden, they will be unable to compete with the existing overseas exchanges. Hence, moving overseas will be a survival measure," he said.

Ahluwalia said that while India has indicated it is likely to permit some crypto use cases, there is too much uncertainty around what will and will not be allowed. She said the tax rules had imposed a high cost on transacting in VDAs, and is being viewed as a setback to the crypto economy and transactions in other digital assets such as NFTs (non-fungible tokens).

What about taxes?

Belgavi predicted some of the trade to also move to the peer-to-peer model. "Apart from denying tax revenues, this will accentuate the issue that some quarters in the government fear, i.e. lack of the ability to track the trade," Belgavi said. "And once you have well-known founders or startups move, it starts to attract many others, creating a community."

According to Indrajeet Sircar, legal and tax counselling worldwide at Nishith Desai Associates, offshore crypto exchanges may still be subject to certain taxes and levies in India. “These could include an equalisation levy, and obligations to withhold tax against payments made by Indian residents towards purchasing VDAs over such exchanges. There may also be implications under GST depending on how authorities view and classify the services of such exchanges,” Sircar told CNBC-TV18.

Investors left behind

Still, clearer tax regulations and hope of raising investments have led to many founders and developers packing their bags. But Indian investors are in a spot as transacting at foreign crypto exchanges would not absolve them from the 30 percent tax liability in India. According to Kshitij Purohit, lead of commodities and currencies, CapitalVia Global Research, there are currently no signs that investors are exiting the crypto market.

"Nevertheless, because taxes are greater than expected, investors are lowering their positions before April 1," Purohit told CNBC-TV18. "Due to the global uncertainties, the equity market is currently at a favourable valuation, and investors are looking to take safe bets. Russia is one of the most important hubs for cryptocurrency mining, and since the war broke out, the country has been subjected to a slew of sanctions, prompting investors to sell their crypto holdings."

Arjun Vijay, co-founder and chief operating officer of Giottus Cryptocurrency Exchange, said white papers of Bitcoin or Ethereum are written with considerable thought and well-defined use cases and investing in them shouldn't be considered gambling. "Such a treatment will push the crypto community away from India, lead to loss of tax revenues to the exchequer, and stymie the growth of local crypto businesses," Vijay said.

Will India be able to reverse this brain drain?

Will India be able to reverse this brain drain?

Siddharth Sogani, founder and CEO of cryptocurrency research company Crebaco, recently tweeted that India would see the biggest brain drain in history in the next 8-12 months. “Making #crypto difficult is not going to stop innovation. The smarties will move offshore. And you know what, these smarties will make billion-dollar enterprises in the crypto space,” his tweet read.

Polygon's Nailwal rued that he wanted to live in India and promote the Web3 ecosystem but said, "It doesn't make sense for us or any team to expose their protocols to local risks".

ZebPay and a few others resumed services for Indians in 2020 after the Supreme Court reversed RBI's banking ban on crypto. But it would be a long and arduous task for India to get its talent back home despite being the country to house the largest base of crypto owners at 100 million.

First Published: Mar 25, 2022, 06:33 PM IST

Tags

Crypto Bill | Cryptocurrencies | cryptocurrency exchanges