

Technology & Tax Series

September 30, 2020

TECHNOLOGY & TAX SERIES – ISSUE V: CRYPTOCURRENCY BUSINESS MODEL CASE STUDY – FINTECH: PART II

Cryptocurrency first emerged in 2009 when the world's first decentralized currency, Bitcoin, was created by a software developer with the pseudonym Satoshi Nakamoto. Since then, over 5,000 virtual currencies like Litecoin, Ripple, Ethereum and several others have come into existence. Based on application of blockchain technology, it is estimated use of cryptocurrencies could reduce banks' infrastructure costs attributable to cross-border payments, securities trading and regulatory compliance by \$15-20 billion per annum by 2022.¹

While the cryptocurrency space in India has been subject to regulatory resistance, it was at one point estimated that around 5 million traders in India traded in 24 exchanges, with trading volumes in the range of 1,500 Bitcoins a day or around INR 1 billion.² Further, news reports suggest that the trading volume of cryptocurrency in India has increased by 400 percent in the last few months during the nationwide lockdown due to the COVID-19 pandemic.³ The boom in crypto trading can also be attributed to the Supreme Court decision wherein the Supreme Court set aside, on constitutional grounds, a circular issued by the Reserve Bank of India, which had sought to restrict banking facilities from being offered to participants involved in cryptocurrency transactions. The Supreme Court ruling affirmed the virtual currency exchanges' fundamental right to trade and do business, guaranteed under the Constitution of India.

In this context and in continuation of our 'Technology & Tax Series', we are pleased to announce the fifth issue of this series: **'Cryptocurrency Business Model Case Study – Fintech: Part II'**

In this issue, we briefly discuss the India's experience in dealing with virtual currencies. We deep dive into the operational business model and legal structure of cryptocurrency exchanges (based on publicly available information) to determine the potential issues that may arise from a tax perspective. We specifically deal with the operational differences between exchange model and over the counter trading model and discuss how the tax implications may differ under both models, particularly in a cross-border context and also when exchanges are located in India. We also discuss how different tax outcomes arise in absence of any law classifying virtual currencies as goods or commodities or securities or derivatives. We then analyze the impact of income-tax provisions *inter-alia* including provisions related to significant economic presence, attribution rules, transfer pricing, withholding tax obligation under section 194-O, obligation to collect tax at source, equalization levy, and provisions under tax treaties in relation to permanent establishment among other issues. We also delve into the potential implications for each model under the goods and service tax regime. We end the discussion in this case study by highlighting some upcoming issues that may be of relevance in the crypto space since there is not much in terms of guidance from different authorities.

While several countries are exploring to regulate the crypto currency market, recent news report suggest that India plans to introduce a new law banning trade in cryptocurrencies.⁴ With increasing rise in the trading volumes of virtual currencies and the decision of Supreme Court, an overall ban on cryptocurrency may be counter-productive for the Indian economy and may hinder innovation. Given the business uncertainty and regulatory challenges which may arise, we are certain that this report would be of interest to you. Please note that this report is only for private circulation and is available only on a request basis. Please send an email on [digitaltaxseries\(at\)nishithdesai.com](mailto:digitaltaxseries(at)nishithdesai.com) to request for a copy of the case study.

¹ <https://www.finextra.com/finextra-downloads/newsdocs/the%20fintech%20%200%20paper.pdf>

² <https://dea.gov.in/sites/default/files/Approved%20and%20Signed%20Report%20and%20Bill%20of%20MC%20on%20VCs%2028%20Feb%202019.pdf>

³ <https://www.moneycontrol.com/news/business/cryptocurrency/cryptocurrency-trading-in-india-sees-400-jump-during-covid-19-lockdown-5539741.html>

⁴ <https://www.bloombergquint.com/global-economics/india-plans-to-introduce-law-to-ban-trading-in-cryptocurrency>

DISCLAIMER

The contents of this hotline should not be construed as legal opinion. View detailed disclaimer.

This Hotline provides general information existing at the time of preparation. The Hotline is intended as a news update and Nishith Desai Associates neither assumes nor accepts any responsibility for any loss arising to any person acting or refraining from acting as a result of any material contained in this Hotline. It is recommended that professional advice be taken based on the specific facts and circumstances. This Hotline does not substitute the need to refer to the original pronouncements.

This is not a Spam mail. You have received this mail because you have either requested for it or someone must have suggested your name. Since India has no anti-spamming law, we refer to the US directive, which states that a mail cannot be considered Spam if it contains the sender's contact information, which this mail does. In case this mail doesn't concern you, please unsubscribe from mailing list.

Research Papers

Fintech

May 05, 2025

Medical Device Industry in India

April 28, 2025

Clinical Trials and Biomedical Research in India

April 22, 2025

Research Articles

2025 Watchlist: Life Sciences Sector India

April 04, 2025

Re-Evaluating Press Note 3 Of 2020: Should India's Land Borders Still Define Foreign Investment Boundaries?

February 04, 2025

INDIA 2025: The Emerging Powerhouse for Private Equity and M&A Deals

January 15, 2025

Audio

CCI's Deal Value Test

February 22, 2025

Securities Market Regulator's Continued Quest Against "Unfiltered" Financial Advice

December 18, 2024

Digital Lending - Part 1 - What's New with NBFC P2Ps

November 19, 2024

NDA Connect

Connect with us at events, conferences and seminars.

NDA Hotline

Click here to view Hotline archives.

Video

Vyapak Desai speaking on the danger of deepfakes | Legally Speaking with Tarun Nangia | NewsX

April 01, 2025

March 19, 2025

**SIAC 2025 Rules: Key changes &
Implications**

February 18, 2025