Virtual digital assets vs Digital currency

Why in news?

Finance Minister in her Budget 2022 speech announced a 30% tax on income from virtual digital assets.

What are virtual digital assets and how are they different from digital currency?

- A medium of exchange can be defined as currency only if it is issued by the central bank.
- So, a crypto is a currency only when it is issued by the central bank.
- The Reserve Bank will be issuing a digital currency called 'digital rupee' in the next fiscal beginning April 1.
- Anything which is outside of that is not a currency. They are virtual digital assets created by individuals.
- People generally refer these digital assets as crypto currency but actually they are not. For example Bitcoin.
- These Private virtual currencies do not represent any person's debt or liabilities as there is no issuer. They are not money and certainly not currency.
- Government will be taxing the profits which are made during transactions of such private created assets at 30%.

How does the government define virtual digital assets?

- To define the term “virtual digital asset”, a new clause (47A) is proposed to be inserted to section 2 of the Finance Act.
- According to Finance Act, “virtual digital asset mean 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 schemes and can be transferred, stored or traded electronically.
- Non fungible token and; any other token of similar nature are included in the definition.

What is a digital rupee?

- Crypto or digital currencies are the latest fad across the world.
- ‘The Digital Rupee’ would essentially mirror the prevalent physical currency in digital form.
- It will be issued by the Reserve Bank and will be fungible with physical currency.
- The exact regulation governing this Central Bank Digital Currency (CBDC) is yet to be finalised.

What are the recent regulations regarding virtual digital assets?

- During the budget 2022 government observed that there has been a phenomenal rise in virtual digital assets transactions.
- As a result the government announced a 30% tax on "income from virtual digital assets" in the budget 2022.
- This is regardless of any long-term or short-term holding by the investor.
- No deduction on expenditure or allowance shall be allowed while computing such income except the cost of acquisition.
- TDS will be imposed on payments for the transfer of crypto assets at a rate of 1% for transactions over a certain threshold.
- If a virtual digital asset investor incurs losses during the transaction, it can't be set off against any other income.
- The gifting of virtual digital assets has also been proposed to be taxed in the hands of the recipient.
- This amendment will take effect from 1st April, 2023 and will accordingly apply in relation to the assessment year 2023-24 and subsequent assessment years.

What the regulations signify?

- The RBI has been vehemently opposing private crypto currencies as they could have implications on national security and financial stability.
- But the recent move recognises crypto as a legitimate asset class and crypto trading as a legitimate activity. However the RBI wants to reduce the appeal towards this virtual digital asset.
- This is evident from
    - a higher tax rate of 30% which will bring down the net gain in the hand of investors.
    - lack of facility to set off losses from transfers.
- The uncertainty and concerns on the legal, regulatory and taxation status of crypto currencies are addressed to a reasonable extent by virtue of this announcement.
- A well-regulated crypto eco-system will create the right environment for innovation.

Reference

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