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A Comparative Study of Cryptocurrency Taxation in India with Other Jurisdictions: Lessons and Best Practices

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ABSTRACT

The globe is undergoing a technological revolution, and India is no exception. With one of the world's fastest-growing economies and successful indigenous products that have been developed, such as the Unified Payment Interface, India has become one of the fastest-growing fintech hubs in the world, with digital currencies revolutionising today's financial ecosystem. Cryptocurrencies such as Bitcoin and Ethereum have proven to be a ground-breaking phenomenon which has attracted the attention of various global stakeholders. However, owing to their decentralised nature, pseudo-anonymity, and use for both investment purposes and transactions, appropriate consideration and caution are warranted in order to achieve fair revenue collection practices, provide clarity and confidence for investors and create a more stable financial ecosystem. Keeping in view the growing interest and investment in these assets, the government has sought to establish a framework for their taxation.

Through this research article, the author intends to investigate and provide a comparative study of the ever-evolving landscape of cryptocurrency taxation with those of other jurisdictions, seeking to identify lessons and best practices, looking at basic issues, alternatives to the classification of the sold as currency, commodities or securities, compliance, and enforcement. This research also investigates the challenges that tax authorities face in assessing cryptocurrency transactions due to blockchain's decentralised nature and cross-border complexities. The research also takes stock of the regulatory regime that countries have instituted or evolved (i.e. varying degrees of taxation) - banning it altogether, allowing free transactions without taxes or some limited exemptions. By scrutinising these approaches, this research considers their successes and weaknesses in balancing innovation with regulatory oversight. The exercise continues the dialogue of how different jurisdictions can successfully pursue global cryptocurrency regulation, tax compliance and accountability in the landscape.

Keywords*: Cryptocurrency, Taxation, Fintech Regulations, India, Decentralized Digital Assets, Blockchain, Crypto assets, Virtual Currency, Bitcoin.*

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I. INTRODUCTION

With digital currency evolving considerably over the past decade, a significant attention towards Cryptocurrency can be witnessed[3], which has emerged as a significant financial innovation, challenging traditional notions of currency and presenting unique regulatory challenges for governments worldwide. In India, the rapid adoption of cryptocurrencies has prompted authorities to grapple with the complex task of developing an appropriate taxation framework.

Cryptocurrency refers to a digital asset that uses distributed ledger technology, also known as blockchain technology, to enable and process transactions[4]. The term "cryptocurrency" is used because this digital currency uses cryptographic protocols to secure transactions[5]. In Layman's terms, cryptocurrencies are digital or virtual currencies that use cryptography for security and operate on decentralised networks based on blockchain technology. Since then, thousands of alternative cryptocurrencies (altcoins) have emerged, each with unique features and use cases. Today, these cryptocurrencies have become a significant force in the global financial system, revolutionizing conventional economic models and developing new paradigms for value exchange. Following the introduction of Bitcoin in 2009, the cryptocurrency market has experienced dramatic growth, fuelled by advances in blockchain technology and growing levels of public acceptance. By 2025, global adoption of cryptocurrency is projected to exceed 8% of the world's population, indicating its maturity as a mainstream financial instrument[6].

One of the biggest attractions of cryptocurrencies is that they are decentralized, which means they do away with dependence on conventional intermediaries like banks. This enables quicker, more secure, and more economically efficient transactions, which are especially beneficial for international remittances and nations with volatile currencies[7]. Besides that, cryptocurrencies enhance financial inclusion through the provision of access to electronic financial services for

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[3] David, Y. (2024) 'The legal intricacies and uncertainties in cryptocurrency transactions: A multi-jurisdictional and comparative analysis pertaining to regulation and Taxation ';, *SSRN* [Preprint]. doi:https://ssrn.com/abstract=4922302 or http://dx.doi.org/10.2139/ssrn.4922302.

[4] See Digital Assets, Distributed Ledger Technology and the Future of Capital Markets, WORLD ECON. F. (May 6, 2021), https://www3.weforum.org/docs/WEF_Digital_Assets_ Distributed_Ledger_Technology_2021.pdf [https://perma.cc/D3BZ-B45R] [hereinafter Digital Assets]

[5] J. Merritt Francis, A Beginner's Guide to Cryptocurrencies: Explaining the Technologies Behind Cryptocurrencies, How the United States Taxes and Regulates Them, and Offering Changes to the Existing Taxation and Regulation Schemes, 30 RICH. J.L. & TECH. 45 (2023). Available at: https://scholarship.richmond.edu/cgi/viewcontent.cgi?article=1214&context=law-student-publications

[6] Josh O'Sullivan (2024) 'Crypto adoption on track to hit 8% by 2025: Report', *CoinTelegraph*, 7 October. Available at: https://cointelegraph.com/news/global-crypto-adoption-nears-8-percent-milestone-by-2025 (Accessed: 24 March 2025).

[7] Grand VIew research (no date) *Cryptocurrency market size & share: Industry report, 2030*, *Cryptocurrency Market Size & Share | Industry Report, 2030*. Available at: https://www.grandviewresearch.com/industry-analysis/cryptocurrency-market-report (Accessed: 24 March 2025).

underbanked individuals and the unbanked globally[8].

Recognising the growing interest and importance of cryptocurrency in today's digital landscape, many nations such as the Philippines, Japan, the United Kingdom, Russia, etc have taken a step towards the implementation of necessary regulations to control them[9]. There has been a realisation of the pressing need for a clear and comprehensive framework for the taxation of cryptocurrency in India as well. Cryptocurrency, which is characterized by its decentralised nature and potential for both investment and transactional utility, poses a significant challenge for the regulatory authorities, mainly in the realm of their taxation. The enforcement of the Finance Act 2022 in India was a major shift in cryptocurrency regulation through the passing of a systematic tax regime for Virtual Digital Assets (VDAs). The regime has a uniform 30% rate of gains made from VDAs and an additional 1% Tax Deducted at Source (TDS) for transactions over a specified amount. Uncertainty nevertheless still prevails over compliance with these provisions, their enforcement, and the overall economic implications of these measures[10]. India's taxation of crypto is comparatively stringent with respect to other nations, where systems tend to strike a balance between generating revenue and encouraging innovation. For instance, the United States considers cryptocurrencies as property for taxation, while Germany excludes long-term positions. These varying taxation strategies serve to underscore the necessity for India to look at international best practices to effectively tackle its own regulatory woes.

This research paper aims to comprehend the nuances and uncertainties of cryptocurrency taxation in India by learning from more developed or differently organized jurisdictions. By analysing recent patterns in India's tax laws in the light of international practices, this research tries to identify best practices that can enhance compliance, facilitate innovation, and ensure equitable taxation in the emerging digital economy.

II. Overview of Cryptocurrency Taxation in India

A tremendous transformation has been witnessed in the taxation of cryptocurrency in recent years, resulting in one of the best-designed regulations in the world for regulating virtual digital assets (VDAs). India, as of 2025, has successfully maintained a distinct tax regime for

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[8] Anastasia Ulianova, 'Digital currencies set to go mainstream in 2024?' Financial Times (27 April 2024). Available at: https://www.financialexpress.com/business/digital-transformation-digital-currencies-set-to-go-mainstream-in-2024-3470220/ (Accessed: 24 March 2025)

[9] Singhal, Kanhaiya, Critical and Comparative Analysis of Taxation Laws with Respect to Crypto-Currency in India (June 1, 2023). Available at SSRN: https://ssrn.com/abstract=4465737 (Accessed: 26 March 2025)

[10] Guneet Kaur, 'Crypto Tax in India: Everything you need to know', (CoinTelegraph, 6 November 2024). Available at: https://cointelegraph.com/learn/articles/crypto-tax-in-india , (Accessed: 26 March 2025).

cryptocurrencies, with high taxation and stringent compliance.

Before 2022, India lacked a formalised tax regime handling cryptocurrencies, and therefore, there existed enormous uncertainty among investors and traders. This gap in regulation led to inconsistent treatment of taxes, with some treating crypto gains as capital gains and others as business income. The Income Tax Appellate Tribunal (ITAT) eventually clarified that transactions done before 2022 should be classified as capital gains tax, putting them in line with traditional investment instruments like equities and real property. This retroactive application provided a logical basis for transactions made within the era of regulatory uncertainty[11]. The climacteric moment in the domain of cryptocurrency came in India when Finance Minister Nirmala Sitharaman presented the Union Budget 2022, the first official acknowledgement and categorisation of digital assets under the term "Virtual Digital Assets" (VDAs). This was India's first tangible step towards regulating the world of cryptocurrencies by imposing taxation[12]. The Finance Act 2022 brought in a uniform 30% tax on cryptocurrency gains and a 1% Tax Deducted at Source (TDS) on transactions, creating a holistic framework that is made specifically for digital assets[13]. This move simultaneously resulted in the legitimisation of cryptocurrencies while assuring that the government have the authority to monitor transactions as well as collect revenue from this class of emerging asset.

Later, the Budget 2025 increased regulatory control instead of easing crypto taxes as many industry players had hoped. Ensuring more comprehensive regulatory coverage, the government widened the definition of VDAs under Section 2(47A) of the Income-Tax Act to include "crypto-assets depending on distributed ledger technology and cryptographic security,". Newly classified as possible undisclosed income, cryptocurrency holdings are subject to greater tax rates if not correctly reported. Crypto transactions became subject to search and seizure procedures under tax laws for the first time; the government ordered that assessments be finished within 12 months from the quarter-end in which the search was authorised[14].

(A) Current Legal Framework and Policies

A distinguishing mark of India's cryptocurrency tax framework is the flat 30% tax on all gains

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[11] Suresh, R. (2024) 'ITAT Ruling Clarifies Cryptocurrency Taxation: Profits Classified as Capital Gains', *India Filings*, 19 December. Available at: https://www.indiafilings.com/learn/itat-ruling-clarifies-cryptocurrency-taxation-profits-classified-as-capital-gains/ (Accessed: 26 March 2025).

[12] 'Crypto Tax in India: Complete Guide to Tax Rules & Filing (2025)' (2025) *Coin DCX*, 19 March. Available at: https://coindcx.com/blog/cryptocurrency/crypto-tax-guide-india/ (Accessed: 26 March 2025).

[13] 'How to Pay Crypto Tax in India? Filing Methods & Important Details' (2025) *Mudrex*, 18 March. Available at: https://mudrex.com/learn/how-to-pay-crypto-tax-in-india/ (Accessed: 26 March 2025).

[14] 'Budget 2025: 30% Tax on Crypto Continues; Regulations Tightened; New Challenges for Traders' (2025) *AngelOne*, 4 February. Available at: https://www.angelone.in/news/budget-2025-tax-on-crypto-continues-regulations-tightened-new-challenges-for-traders (Accessed: 26 March 2025).

from crypto transactions, without consideration as to how long the taxpayer held the asset, or regardless of the taxpayer's total income in a specific bracket. This is equivalent to India's highest income tax rate and is applied to crypto gains without regard as to whether the holding period is long-term or short-term. There is also the possibility that cryptocurrency transaction tax categories may be influenced by applicable surcharges, and the economic burden associated with the additional 4% cess also diminishes net returns for crypto investors[15]. For instance, a person buys 1 Bitcoin for INR 30 lakh and subsequently sells the 1 Bitcoin for INR 40 lakh, the INR 10 lakh gain now has tax implications of INR 3 lakh (30%) before surcharges and cess are applied. This taxation framework provides very limited ability to deduct when calculating tax liability on cryptocurrency. When determining taxable gains, only the costs of acquisition may be deducted from the sale value. Other costs of buying, selling or holding cryptocurrencies, like trading fees, wallet fees, mining costs, and costs of advice, cannot be deducted. This will make crypto taxable gains greater than in real life. Further, the framework prohibits the deduction of losses from one cryptocurrency against gains of other cryptocurrencies, and against other sources of income, like salary or the share markets. This prohibition further extends to the carrying forward of losses in future assessments, creating a very restrictive environment for individuals, as compared with all other forms of investments[16].

Apart from the direct tax on profits, the regime has a 1% TDS requirement to oversee cryptocurrency transactions if the value exceeds INR 10,000 and INR 50,000 in some situations. The TDS obligation applies to all forms of transactions, such as, exchange-based, peer-to-peer transactions, and creates an additional compliance hurdle which also contributes to liquidity issues. Although taxpayers can claim the TDS amount when filing their income tax return, the TDS mechanism generates an important track and traceability device for authorities, and is a method of socialising tax as it incorporates tax in advance of reporting profits[17]. The TDS requirement has disrupted the trading models in the Indian cryptocurrency market, as traders now need to account for this new expense as part of planning their transactions. Cryptocurrency investors are required to disclose their gains under "Income from Other Sources" section when preparing their Income Tax Returns, specifically ITR-2 or ITR-3, depending on their total income profile[18]. The reporting process requires comprehensive tracking of each transaction involving cryptocurrencies with detailed records of the date of purchase, cost basis, sale value and profit or loss experience. The key taxable events which trigger the tax reporting

[15] *supra* note 12.
[16] *supra* note 14.
[17] *supra* note 12.
[18] *supra* note 14.

requirements include:

i. conversion of cryptocurrencies to fiat currencies,

ii. trading or exchanging cryptocurrencies to other cryptocurrencies, and,

iii. use of cryptocurrency to purchase goods or services. This general reporting requirement, however, means that tax authorities are entitled to know of all events involving cryptocurrencies[19].

In Budget 2025, the Income-tax Act was amended to include Section 285BAA requiring taxpayers to report details of the transactions they have completed over the tax year, resulting in more intensive obligations around transparency for cryptocurrency trading. The new compliance obligations will start on April 1, 2026. This new confirmed policy represents the growth in obligations for reporting transactions in the booming area of digital assets, and is consistent with India's regulatory movement into digital assets across many jurisdictions. In an environment of extreme risk for tax loss, this requirement is positioned as a method of the government preventing tax avoidance and ensuring they capture as much data as possible regarding transactional and ownership patterns of cryptocurrency owners' across the country. The very act of classifying unreported crypto holdings as undisclosed income in Budget 2025 raises significant tax risk for non-compliant investors. It positions cryptocurrencies in the same risk profile as other income generators that have been heavily penalized and scrutinized under India's tax Act, such as gambling winnings or horse racing earnings. This makes for a careful and conservative approach to regulation. Unreported cryptocurrencies discovered in tax investigations can be taxed at much higher penalty rates than the 30 percent tax rate, and may also include penalties for determined concealment. These deliberate decisions to provide the classification of unreported cryptocurrencies gives significant weight to the message that the parties enforcing compliance from the government are serious about securing maximum obligations for tax compliance in the crypto context[20].

III. Key Challenges and Gaps

India's framework for crypto taxation effectively restricts unproductive speculation and improves transparency yet fails to promote innovation and safeguard retail investors. India’s 30% tax rate—three times that of long-term capital gains on equities—provides disincentives for long-term holding and institutional investment. Blockchain investors do not receive inflation-indexed cost of acquisition adjustments as in real estate; thus, all gains are taxed that

[19] *supra* note 12.
[20] *supra* note14

are denominated in nominal currency while ignoring depreciation of the Indian rupee. This discrepancy has curtailed venture capital investments in Indian blockchain projects, with 72% of funded projects moving offshore to communities such as Singapore and Switzerland[21]. VDAs are taxable, but the legal position remains uncertain. Cryptocurrencies are neither banned nor recognized as legal tender. This uncertainty raises complications for bankruptcy proceedings: crypto assets do not fit clearly under the categories defined in the Insolvency and Bankruptcy Code. Further cross-border transactions create jurisdictional issues that limit Indian authorities from effectively monitoring offshore exchange transactions[22].

The proscription on the offset crypto loss against other income sources is contrary to horizontal equity, acceptable in traditional markets. For active traders, effective tax rates of over 40% (where unrealised losses are a factor) are a structural barrier to the maturation of these markets[23]. The single category of VDA places utility tokens, stablecoins and NFTs in the same class with speculative cryptocurrencies, without an understanding of their underlying economic functions. For example, NFTs based on intellectual property may be taxed at lower rates under India's IP regime, but are taxed at 30%[24]. Decentralised finance activities (DeFi) are also in a regulatory black-hole. Rewards earned while staking or lending on DeFi protocols will be taxed at slab rates as income, however, their valuation method for in-kind rewards is unspecified. In 2025, the Bombay High Court petition noted that there is no way to determine the fair market value of that airdropped token for the purposes of taxation without being availed on an exchange, and hence could lead to compliance blockages[25]. Cryptocurrency mining remains largely unregulated, despite being one of the environmental concerns of crypto mining, especially in regards to Proof-of-Work mining activities in states like Karnataka and Tamil Nadu, which have no obligation to report carbon offsets, which sinks India's chances at a net zero mandate[26]. Instead of issuing some kind of current incentives for green mining, with respect to its environmental footprint, there will be a blanketing of complete absence of incentives, especially in contrast to the MiCA framework in EU, which directly ties the issuance of a mining permit to energy source[27].

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[21] Vinayak Hegde, Swati Sen (2024) 'A study on the impact of Indian taxation on Virtual Digital Assets in India', *REST Journal on Banking, Accounting and Business*, 3(4), pp. 1–9. doi:10.46632/jbab/3/4/1.

[22] Anju S Nair, *Challenges of Regulating Bitcoin and Cryptocurrency in India*. Available at: https://tuljalegal.in/blog/challenges-of-regulating-bitcoin-and-cryptocurrency-in-india (Accessed: 26 March 2025).

[23] *supra* note 12.

[24] *supra* note 11.

[25] 'Crypto Taxation in India: A Work in Progress' (2024) *Finlaw*, 29 May. Available at: https://finlaw.in/blog/crypto-taxation-in-india-a-work-in-progress (Accessed: 26 March 2025).

[26] *supra* note 22.

[27] *supra* note 21.

IV. Comparative analysis of cryptocurrency taxation frameworks

The global tax regime for cryptocurrencies has evolved into a complex mosaic of approaches, which is a gauge of diversified economic interests and risk tolerance. With these digital, decentralised currencies gaining popularity, governments around the world are grappling with the complexities of taxation, leading to a heterogeneous set of approaches. Some governments have embraced cryptocurrencies by offering favourable tax environments to encourage innovation and investment, while others have imposed strict tax environments to regulate risk associated with volatility and misuse. The foundational aspiration of cryptocurrency is to establish a worldwide accessible digital currency that transcends geographical boundaries and functions around the clock. Yet, the fulfilment of this vision is contingent upon the general acceptance of governments worldwide. The international regulatory environment is characterised by fragmentation, as countries adopt different positions on the categorisation of cryptocurrencies that vary from treating them as currencies or commodities to blanket bans or maintaining indefinite legal statuses. For example, India has yet to establish specific regulations on the legality of cryptocurrencies, which reflects the general uncertainty that pervades international regulatory regimes. In this regard, examining the regulatory positions of some of the world's largest economies provides valuable insights into the varying legal frameworks that are determining the future of digital assets.

With this in mind, we will now explore the strategies adopted by some of the world's largest economies in regard to levying of tax on cryptocurrency:

1. United States of America

The United States (US) Treasury, since 2013, have been releasing recommendations on cryptocurrencies, but have failed to classify or declare the same to be “money”. So, the US Government has designated cryptocurrencies as money services enterprises which is nor considered as property for the purpose of taxation and the trade profits from them are counted as Capital Gains[28]. Based on how long it has been held, the investment will be taxed as either a short-term equity investment or as long-term carried interest. The guidelines regarding the same have been issued by the Internal Revenue Service (IRS) and it requires the taxpayers to report the crypto-related transactions in their tax returns[29]. Even if someone uses cryptocurrency to

[28] Singhal, Kanhaiya, Critical and Comparative Analysis of Taxation Laws with Respect to Crypto-Currency in India (June 1, 2023). Available at SSRN: http://dx.doi.org/10.2139/ssrn.4465737 (Accessed: 27 March 2025).

[29] Agrawal, P. (2023) ‘taxation of Cryptocurrencies in India ’, *AK Legal*, 28 July. Available at: https://aklegal.in/taxation-of-cryptocurrencies-in-india/ (Accessed: 27 March 2025).

pay for services, the US IRS considers this a taxable event for income tax purposes[30].

The IRS has also considered the income from mining cryptocurrency is subject to taxation and also considers new coins acquired after a hard fork as common taxable income. The original cost basis of cryptocurrency is the cost of the transaction. In efforts to enhance the taxation of cryptocurrency, the IRS is currently reviewing several options, such as requesting more legal power from Congress and requesting court orders to identify entities involved in substantial transactions, such as the situation of the Kraken exchange. In spite of the fact that there is, at the moment, no clear statutory policy for cryptocurrency taxation and a proposed tax of 20% has been unsuccessful, it is likely that the US will have a regulation policy for taxation of cryptocurrency shortly[31].

2. United Kingdom

In 2020, the United Kingdom (UK) classified cryptocurrency as an asset and mandated that the exchanges for cryptocurrencies must be registered with the Financial Conduct Authority (FCA). Tax has been levied on the Capital Gains from the purchase and sale of cryptocurrencies, and a normal exemption on capital gains is available up to £12,300[32].

The guidelines have also been issued by His Majesty's Revenue & Customs (HMRC) making an assertion that the sector is “fast-moving and developing all the time”, which has been interpreted to be stating that the tax implications of cryptocurrency will change depending on the fluctuations in its use, with HMRC evaluating each case on its own merits instead of adhering to a predetermined tax treatment. The HMRC differentiates between the tax treatment of cryptocurrencies by individuals and corporations, where businesses are not taxed on their "exchanges" of cryptocurrencies because HMRC does not recognize cryptocurrencies as currencies and thus these exchanges are exempt from corporation tax. For example, profits attributable to trading exchange tokens are taxable trading income of a business as HMRC now classifies trading exchange tokens as being part of a business. HMRC has also determined that exchanges services for cryptocurrencies supplied by exchanges are not liable to VAT and that mining is not an economic activity for VAT purposes since no customer is found with mining operations. Finally, HMRC has set out two kinds of income or trading profits from

[30] Internal Revenue Service, ‘Frequently Asked Questions on Virtual Currency Transactions’ (IRS, 2022) https://www.irs.gov/individuals/international-taxpayers/frequently-asked-questions-on-virtual-currency-transactions (Accessed: 27 March 2025).

[31] Pratap Singh, A., & Shukla, D. (2023). A COMPARATIVE REVIEW OF TAXATION POLICIES REGARDING CRYPTOCURRENCIES. *Prayagraj Law Review*, *1*(2), 45–52. https://doi.org/10.61120/plr.2023.v1i245-52 (Accessed: 27 March 2025).

[32] *supra* note 28.

cryptocurrencies in regard to tax treatment for individuals that are either trading gains (which are assessable as trading profits chargeable to income tax) or capital gains (which are subject to Capital Gains Tax with regard to the relevant annual exemptions etc).“It is important to highlight that HMRC's published guidance is a representation of HMRC's opinion on existing tax legislation, which the court has not interpreted nor created for specifically purpose crypto assets legislation, therefore, the result of taxes relating to crypto-asset whilst in dispute may also be contingent (i.e. subject to change)[33]. The UK is currently working proactively to establish more suitable ways to tax cryptocurrencies, with a panel commencing to review the legal issues of cryptocurrencies and suggesting alternative approaches to treating cryptocurrency trading like gambling and imposing high taxes on profits[34].

3. Japan

Shifting our focus to Japan, unlike other regions, Japan has adopted a novel approach towards the taxation of cryptocurrencies, making history as the first country to formally recognise Bitcoin as a digital payment method[35]. Profits from any sale or use of virtual currency are considered by the Japanese National Tax Agency (NTA) to be ‘incidental profits’, and therefore, a taxpayer could not utilise losses on other virtual currency transactions to offset these gains[36]. The Japanese tax law specifies that all income from cryptocurrency activities (trading, mining, lending, etc.) is treated as miscellaneous income. Moreover, the value of the virtual currency an individual possessed at death is subject to inheritance tax.

Further, Japan levies a 30% corporate tax on the profit generated by companies from owning digital currencies[37]. Recently, Japan has put in place tax relief for companies issuing cryptocurrencies, which means that they will no longer have to pay the 30% corporate tax on profits unrealised from those assets[38].

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[33] *supra* note 31.

[34] Bloomberg feed. Steep Taxes for Cryptocurrency Trading? UK Panel Recommends Treating It like Gambling.” *Livemint*, (28 December 2021). Aavailable at: https://www.livemint.com/market/cryptocurrency/steep-taxes-for-cryptocurrency-trading-uk-panel-recommends-treating-it-like-gambling-11684284460883.html (Accessed: 27 March 2025).

[35] Jonathan Garber. Bitcoin spikes after Japan says it’s a legal payment method. *Business Insider* (3 April 2017). Available at: https://www.businessinsider.in/bitcoin-spikes-after-japan-says-its-a-legal-payment-method/articleshow/57990540.cms (Accessed: 27 March 2025)

[36] Mainichi, Japan’s Cabinet approves amendment to allow more foreign workers. *Mainaichi*, (4 December 2018). Available at: https://mainichi.jp/english/articles/20181204/p2a/00m/0na/010000c (Accessed: 27 March 2025).

[37] Takashi Nakamichi and Nao Sano (2022) ‘Japan Moves Closer to Easing Tax on Corporate Crypto Holdings’, *Bloomberg*, 15 December. Available at: https://www.bloomberg.com/news/articles/2022-12-15/japan-moves-closer-to-easing-tax-on-corporate-crypto-holdings (Accessed: 27 March 2025).

[38] Shashank Bhardwaj (2023) ‘Japan Exempts Token Issuers from the 30% Crypto Tax on Paper Gains’, *Forbes India*, 27 June. Available at: https://www.forbesindia.com/article/cryptocurrency/japan-exempts-token-issuers-from-the-30-crypto-tax-on-paper-gains/86153/1 (Accessed: 27 March 2025).

4. Australia

Like the U.K. and the USA, Australia also views cryptocurrency as an asset, not as a currency[39]. It treats cryptocurrency transactions similarly to exchanges of digital tokens for tax purposes[40]. Existing tax law in Australia does enable the use of the digital currency Bitcoin to buy goods and services without imposing income tax or imposing Goods and Services Tax (GST). However, if the use of Bitcoin originates as an investment and the Bitcoins are sold or disposed of, it may take a capital gains tax (CGT) event and the profit will be subject to tax.

Income tax applies to businesses which have made a profit from the activities such as providing cryptocurrency exchange services, buying and selling digital currencies, and the activity of mining Bitcoin. Businesses that utilize Bitcoin to pay for goods or services must include the value of that payment in Australian currency as assessable business income. Furthermore, both individuals and businesses trading in digital currencies as a profit-making venture must include what they make as business profits. In the event a business supplies a digital currency, they will charge GST and pay GST when the business purchases a digital currency[41].

5. Russia

Russia considers cryptocurrencies to be physical assets, not payment methods. However, this classification allows them to be exchanged, and provides for taxation on profits from transacting. In Russia, cryptocurrency investors must report their holdings in their income tax declarations, subject to 10% penalty if they fail to do so. This reporting obligation began in April 2022[42].

6. China

China's strategy towards cryptocurrency encompassed a pivotal move in September 2017 with the ban on Initial Coin Offerings (ICOs). Available exchange platforms that facilitated buying and selling cryptocurrency and other services offered were shut down without exception. However, China has not adopted a ban that disallows holding cryptocurrencies. Moreover, the section of the Beijing Arbitration Commission (the BAC) restricted monetary and financial institutions from providing or engaging in virtual currency services. The BAC does view Bitcoin as a "virtual commodity," but not a "virtual currency." This leaves us in a contradictory

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[39] Australian Taxation Office (2024) *What are crypto assets?*, *Australian Taxation Office*. Available at: https://www.ato.gov.au/individuals-and-families/investments-and-assets/crypto-asset-investments/what-are-crypto-assets (Accessed: 27 March 2025).

[40] Reserve Bank of Australia, *Digital Currencies: Explainer: Education*, *Reserve Bank of Australia*. Available at: https://www.rba.gov.au/education/resources/explainers/cryptocurrencies.html (Accessed: 27 March 2025).

[41] *supra* note 31.

[42] *supra* note 28.

position whereby cryptocurrency services are prohibited for banks and other financial institutions...and exchanges are prohibited, but cryptocurrency investment profit is still taxed locally at 20%, as income[43].

7. Canada

Similar to Australia, Canada considers digital currencies as commodities when determining income tax liabilities. Consequently, transactions conducted using Bitcoin will be treated the same as with other digital tokens. When a business receives cryptocurrency as a method of payment, the business will pay income tax based on the value of the goods or services that it would have paid to a third party. Canada's definitions of disposal and income tax consequences apply in the same manner as Australia, whereby the tax implications arising from a disposal of cryptocurrency (and subsequent income) may be either a capital gain or business income[44].

V. LESSONS FROM OTHER JURISDICTIONS

The taxation of cryptocurrencies in India has become rapidly complicated and contentious with exorbitant rates, and unclear regulations. In accordance with the stipulations set out under the banner of Taxation of income earned from digital or cryptocurrencies is to be charged, at flat rate of 30 (%) and there is a TDS (Tax Deducted at Source) of 1 (%), on all transactions. The regulations make it extremely difficult for investors and traders alike to reconcile[45]. This rigid approach to taxation, plus the ambiguity concerning certain crypto-activities, has created compliance challenges and has led to ongoing discussions regarding its fairness and implications. With ongoing developments with different jurisdictions around the world and creative approaches to crypto-taxation -- India can learn from those experiences. Some of the key takeaways and recommendations in regulating the taxation of cryptocurrency effectively could be mentioned below:

1. Implementation of a progressive taxation structure:

While India is a flat 30% rate country, the U.S. and the U.K. both take a progressive approach in taxation. In the US, taxes vary from 0%-37%, with differentiation on the time frame of the gains. Long-term holdings/leverage are taxed at lower rates. Whereas in the UK, Capital gains tax is only applicable if profits exceed an annual exemption limit (£12,300 for FY 2023–24).

Recommendation: Given the structure described, India could easily transition to a tiered tax structure that differentiates short- and long-term holdings, which would be consistent with

[43] *supra* note 31.
[44] *supra* note 31.
[45] *supra* note 12.

global best practices and incentivise long-term investors.

2. **Offsetting Permit Losses:**

Presently, in India, losses incurred from Virtual Digital Assets (VDAs) cannot be offset against any other sources of income. In contrast, the United States allows capital losses up to $3,000 to be offset against ordinary income, with the remaining amount carried forward losses[46] and the UK allows losses with respect to crypto to be offset against capital gains, therefore reducing taxpayer capital gains tax liability[47].

Recommendation: India should allow the offsetting of permit losses to create a fairer tax system and to lessen the burden on investors when the market goes down.

3. **Reduction of TDS to Promote Adherence:**

Reduced trading volumes and a move to foreign exchanges are the results of India's 1% TDS on cryptocurrency transactions.

Recommendation: Reducing the TDS rate may enhance the accuracy of tax reporting, promote domestic trade, and lessen compliance requirements.

4. **Provide Clarity on Regulations:**

Businesses and investors are uneasy due to India's ambiguous crypto laws. Other nations provide more lucid frameworks, such as Singapore which offers a transparent regulatory environment by licensing exchanges under the Payment Services Act or the European Union, which has standardised the crypto laws among its member states by enforcing the Markets in Crypto-Assets (MiCA) regulation.

Recommendations: To promote a safe and open crypto ecosystem, India should enact thorough regulations outlining VDAs, their classifications, and the obligations of intermediaries.

5. **Encouraging Investment and Innovation:**

Talent and capital may migrate to more crypto-friendly jurisdictions due to high taxes and unclear regulations. For example, Hong Kong intends to attract investment by waiving taxes on cryptocurrency gains for family offices and hedge funds.

Recommendation: To establish itself as a centre for cryptocurrency innovation, India should

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[46] All India Federation of Tax Practitioners (no date) *Decrypting crypto taxation: Comparison of Indian amendments with Global Perspectives " AIFTP*, *AIFTP*. Available at: https://aiftponline.org/journal/2022/february-2022/decrypting-crypto-taxation-comparison-of-indian-amendments-with-global-perspectives/?utm_source=chatgpt.com (Accessed: 28 March 2025).

[47] Clear Tax (2024) *Crypto Tax Rates In Various Countries*, *Clear Tax*. Available at: https://cleartax.in/s/crypto-tax-rates-in-various-countries?utm_source=chatgpt.com (Accessed: 28 March 2025).

offer tax breaks to blockchain startups and long-term investors.

6. **Engagement with Global Cooperation:**

Unilateral regulations might not work because cryptocurrencies are a global phenomenon. India understands that international collaboration is necessary to develop its crypto policies.

Recommendation: India take an active part in international forums to exchange best practices and harmonise crypto regulations.

VI. CONCLUSION

The dynamic and changing character of digital asset regulation worldwide is demonstrated by the comparison of cryptocurrency taxation in India and other jurisdictions. Although India has taken action to include cryptocurrencies in its tax purview, its current strategy is still quite strict and could impede market participation and innovation. On the other hand, a number of other jurisdictions have implemented more flexible and sophisticated taxation schemes that strike a balance between economic expansion and regulatory supervision.

The fundamental problem is that the Indian government is unable to create a thorough tax system that adequately handles cryptocurrency transactions. Compliance is hampered not by a lack of provisions but rather by the absence of a logical regulatory framework that is suited to this new type of business activity, even though the current statutory provisions are adequate to bring such gains under the tax net—under various heads. Earnings from operations like mining Bitcoin, purchasing and selling digital currencies, and offering cryptocurrency exchange services are subject to income tax for businesses. Companies that use Bitcoin to pay for goods or services are required to include the amount in Australian dollars in their reportable business revenue. Additionally, it is anticipated that both individuals and companies that engage in profitable digital currency trading will include these gains in their taxable profits. Businesses will charge GST when they supply digital currency, and they will pay GST when they buy it[48].

When Finance Minister Nirmala Sitharaman proposed a flat 30% tax on all revenue derived from cryptocurrency transactions in the Union Budget of 2022, India's position on cryptocurrency taxation was first made apparent. However, this tax structure was left unchanged in the Union Budget that followed for the fiscal year 2023–2024. A notable example of a lack of additional engagement or clarification on the subject is the budget speech for FY 2023–2024,

[48] JAI GANESH (2024) 'Decoding the Crypto Conundrum: Navigating the Legal Landscape of Taxing Cryptocurrency in India', *International Journal of Legal Science and Innovation*, 6(3), pp. 378–393. doi:https://doij.org/10.10000/IJLSI.111908. (Accessed: 28 March 2025).

which made no mention of the terms "crypto," "bitcoin," or any related terminology at all.[49]

Global trends show that major economies have begun to embrace cryptocurrencies in a variety of ways. On the other hand, India's strict policies regarding this new asset class could have serious consequences. Drawing inspiration from the success of current regulators in their respective fields, the Indian government should think about establishing a specialised regulatory body to monitor the cryptocurrency industry in order to address this issue. It is crucial to implement a balanced regulatory strategy that both prevents illegal activity and guarantees a safe and open environment for traders and investors. A framework that encourages innovation without sacrificing regulatory oversight is essential given the sharp increase in the number of cryptocurrency users[50].

It is clear from looking at global best practices that a robust crypto ecosystem depends on tax laws that are clear, flexible, and consistent. Adopting a more progressive and investor-friendly tax system that fosters compliance, clears up uncertainty, and advances technology would be advantageous for India. In addition to improving India's regulatory credibility, a unified and clear approach to cryptocurrency taxation can establish the country as a competitive centre in the global digital economy.

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[49] *supra* note 28.

[50] Ajay Shah (2013) ‘Sebi at 25: Why sebi is an unusual example of public policy success in India’, *Economic Times*, 24 May. Available at: https://economictimes.indiatimes.com/opinion/et-commentary/sebi-at-25-why-sebi-is-an-unusual-example-of-public-policy-success-in-india/articleshow/20234939.cms (Accessed: 28 March 2025).