

Key features of the taxations of the Crypto Currency are as under:

1. Tax Rate:

Any income from transfer of any VDA shall be taxed at a flat rate of 30% under section 115BBH. Taxation will not at all be dependent on the period of holding of such digital assets. So, whether it is a short term or a long-term, the tax rate would remain at 30%. This tax provision is a significant deviation from the existing tax principles wherein there is a scope of offering such income as business income or capital gains income.

2. Deduction & Exemption:

No deductions and exemptions shall be available against income from VDA except deduction towards its cost of acquisition. In short, no deduction towards brokerage, commission, consultancy fees, indexation benefit, etc shall be available while computing profit from virtual digital assets. Further, no exemption by investing the amount in the house property or specified bonds issued by REC/NHAI etc shall be available. However relief under Section 87A can be claimed against such income. Further, no benefit of the basic exemption limit will be available against the income from VDA.

3. Deduction of Tax at Source [Section 194S]

To keep a track of such transactions, it is provided that the income would be subject to Tax Deduction at Source (TDS) beyond a specified monetary threshold. A new Section 194S has been proposed so as to ensure TDS on such transactions. TDS Rate and threshold shall be as under:

a) TDS shall be required if the consideration is payable by any person (other than a specified person) & if the aggregate value exceeds Rs. 10,000 during the financial year.

b) Tax shall be deducted if the consideration is payable by the following specified persons and if the aggregate value exceed Rs. 50,000 during the financial year:

(i) An individual or a HUF, whose total sales, gross receipts or turnover does not exceed Rs. 1 crore in case of business or Rs. 50 lakh in case of a profession, during the financial year immediately preceding the financial year in which such virtual digital asset is transferred;

(ii) An individual or a HUF who does not have any income under the head profits and gains of business or profession.

If the deductee does not furnish his PAN to the deductor, the tax shall be deducted at the rate of 20% as prescribed under Section 206AA. [Higher rate of TDS for non filers of income tax return under section 206AB shall not apply in the case of a specified person. Thus, even if the deductee has not furnished the return of income for a specified period, the tax shall be deducted at the rate prescribed under this provision and not as specified in Section 206AB, if the payer is a specified person. If the payer is not a specified person then the tax shall be deducted as per Section 206AB if the payee is a non-filer].

4. Gift of VDA:

Gift of such VDA will also be subject to tax like any other gift. In short, if any person receives VDA without consideration (gift) or for inadequate consideration from any person other than relative and if the value of such benefit exceeds Rs. 50,000 then it shall be taxable in the hands of the recipient u/s 56(2)(x) as "Income from other source".

5. Loss in VDA:

In case of loss, it cannot be offset against other income whatsoever. Similarly, the benefit of carry forward of loss from VDA transactions is also not available to the taxpayers.

6. Taxation of Old Transactions:

The new tax provisions providing for taxation of VDA would be applicable from the Assessment Year 2023-24. Thus, any transfer of virtual digital assets on or after 01-04-2022 shall be taxable as per new provisions proposed by the Finance Bill, 2022. Profit earned till 31/03/2022 would be governed by the old provisions only.

7. Disclosure of Crypto Assets in ITR Forms:

Ministry of Corporate Affairs (MCA) has already provided for mandatory compliance in disclosing gains and losses in virtual currencies. Also, the value of cryptocurrency as on the balance sheet date is also required to be reported in case of companies. No disclosure requirement for crypto-currency is there in the ITR forms as of now.