

Bitcoin investors may have to pay capital gains tax

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I-T Dept to classify cryptocurrencies as capital assets

Mumbai, December 28:

After questioning several cryptocurrency exchanges operating in the country last week and sending notices to about five lakh high networth individuals, the Income Tax Department is now looking at classifying bitcoins as an asset for claiming capital gains tax.

According to sources at the Income Tax Department, profits made through investment in any of the cryptocurrencies such as Bitcoin, Ethereum, Ripple and Dash would invite capital gains tax.

According to industry estimates, over six lakh people invested in bitcoins over the past one year. Sources close to tax authorities said bitcoins cannot be treated as a currency as long as they are illegal. "Many have filed taxes declaring gains arising from bitcoins as income from other sources. But soon, they will have to file it under the category of capital assets," said a source, adding that discussions are on internally to take a final view on the matter.

BusinessLine spoke with tax experts to understand how the taxation structure under consideration would impact bitcoin investors.

Vaibhav Parikh, Partner at Nishith Desai Associates, said that since the concept of cryptocurrency is new, the government is looking at ways to recognise it and bring it under income-tax laws.

"It is good if the I-T Department is looking to classify bitcoins as capital assets; it is the right way to do it," Parikh said, adding that holdings of bitcoins for more than three years would be treated as long-term capital gains under tax laws.

Tracking limitations

However, while it will be easy for tax authorities to track people investing on the exchanges operating in the country as such exchanges normally insist on PAN card for opening trading accounts, it would be practically impossible for them to track those who hold virtual currencies outside India.

Archit Gupta, Founder of online tax filing portal ClearTax, said, "First, the RBI should give clarity on why virtual currencies should be taxed as capital assets; only after that can tax authorities look at whether to consider the gains as long term or short term."

Two factors

Bitcoins, Gupta added, could be taxed in two respects: on the basis of where the bitcoins are mined - whether in India or abroad - and, second, if the bitcoins are held as an investment being transferred in exchange of real currency.

As per tax laws, if bitcoins are classified as capital assets, the appreciation in value would give invite long-term capital gains or short-term capital gains, depending on the period of holding of the bitcoin; the tax rate would be 33 per cent or 21 per cent, respectively.

Praveen Kumar, founder of Singapore-based exchange Belfrics, which has operations in India, said, "I am still not convinced whether they (tax authorities) will be able to term bitcoin as anything without a classification from the RBI."