

Business Standard

How Jaitley punctured Bitcoin mania: Global prices slid 25% after Budget

The issues around cryptocurrency use and taxation remain; the segment insists it is committed to helping stop illegitimate use, suggests the govt should work with it

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Bitcoin

Finance Minister Arun Jaitley's thumbs-down in Budget 2018 to Bitcoin, and the global crypto payment ecosystem has severely hit the Bitcoin price.

Before Jaitley spoke about Bitcoin in his [Union Budget speech](#) on Thursday, the popular cryptocurrency was trading in the international market at \$10,232. And then came the minister's statement: "The government does not consider cryptocurrencies legal tender or coin and will take all measures to eliminate the use of these crypto assets in financing illegitimate activities or as part of the payment system." Suddenly, the price started falling and it dropped to \$7,614 by Friday evening before recovering later.

Ajeet Khurana, head of the Blockchain and Cryptocurrency Committee of the Internet and Mobile Association of India, said: "India's announcement did impact the price internationally, though India is not that big a player from a global perspective."

He added: "I believe the minister's Budget statement did not cause Bitcoin prices to fall but its misinterpretation did. Though many factors affect market prices, the downward bias exerted by the misinterpretation should soon be reversed."

By Friday evening, Bitcoin had recovered nearly 15 per cent from its low to trade at \$8,737. In India, the price on the currency's leading exchange, Zebpay, was above Rs 750,000, before it fell on Friday to Rs 525,000, only to recover in the last hour to Rs 620,000. Since then, the price has moved in a 3-4 per cent range.

India, though, was not the only reason for Bitcoin's fall. According to the Bitcoin community, reports of South Korean regulators having uncovered \$600 million in illicit cryptocurrency trades and some reports of hacking also added fuel to the fire and the combination of factors resulted in a sharp fall in prices.

On his part, however, Jaitley had recognised the public ledger or blockchain technology, and said the government would explore the "use of blockchain technology proactively for ushering in a digital economy". On Thursday, after Jaitley's statement, many investors had seemed to ask why one should buy if it was not a coin or payment mode.

Globally, Bitcoin is used for buying assets. Many entities – global consultancy EY in Switzerland, for example – accept fees in Bitcoin. The interpretation of Jaitley's statement was that such a use might not be permitted in India.

Khurana, who is the sectoral spokesperson, said: "Nobody supports illegitimate activities, regardless of whether such financing is done using legal tender, cryptocurrency, gold or any other medium. We encourage the government to work with our members, as we are committed to detecting, reporting and eliminating suspicious transactions in pretty much the same way as other institutions do."

However, with the minister saying Bitcoin is not coin or mode of payment, questions remain on how it will be treated from now. Even if it is treated as a commodity, imposing goods and services tax (GST) on it will not be simple. A government official on Friday said that the government was yet to give a thought to the GST aspect of cryptocurrencies.

Bitcoin exchanges say they provide a service and on the brokerage that they charge can be subject to GST. Vaibhav Parikh, partner at Nishith Desai Associates, says: "Cryptocurrencies can be treated as a capital asset for tax, unless you are in the business of buying and selling, in which case it will be business income." On Jaitley's statement, he said: "Cryptocurrency would be discouraged but not banned."