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ARE TAX-EFFICIENT CRYPTO INVESTMENT OPTIONS AVAILABLE IN INDIA?

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

The government in Finance Bill, 2022 on 1 February had proposed that gains from virtual digital assets (VDAs) or crypto assets will be taxed at a flat rate of 30% irrespective of the individual's income tax slab rate and a tax deducted at source (TDS) of 1% will be levied on every crypto transfer.

Further, the government on Monday clarified that investors will not be allowed to set-off losses in one crypto asset against another. Meaning, in a financial year if an investor had gains from bitcoin investments and incurred losses in ether, he or she will have to pay tax at 30% on gains in bitcoin.

Compared to this, if you have incurred a long-term capital loss (LTCL) on selling shares or equity mutual funds then you can set them off against any long-term gains. Equity investors also have option available to carry forward these losses for setting off.

However, neither set off of losses or carry forward of losses would be available for crypto investments.

There are fears in the industry that stringent tax proposals may result in migration of crypto investors to other traditional investment asset classes such as stocks, mutual funds or gold.

Industry professionals continue to maintain a positive stance. “A lot of people with institutional capital and large money till now feared that crypto was illegal. That narrative has changed with the Budget proposals. As a result, a lot of people who were on the fringes and wanting to invest, grow and scale have started to come in," said Edul Patel, chief executive officer and co-founder of Mudrex, crypto investing platform.

Still, investors testing crypto waters are exploring ways to save tax on their crypto investments.

According to Ajeet Khurana, a crypto advisor and investor, the only way to bring down tax incidence on such investments would be to get indirect crypto exposure. Khurana believes that even crypto investment products that mimic mutual funds and fixed deposits would attract tax at the rate of 30%.

Vested Finance, a global investment platform, recently launched a portfolio called, Bitcoin Vest, which gives Indian investors exposure to bitcoin, without directly buying any cryptocurrency. In this way, investors could benefit from lower taxation.

Bitcoin Vest is constructed using equities of publicly-traded companies that have exposure to bitcoin. Plus, it also has a allocation to the ProShares Bitcoin Strategy ETF (BITO), a bitcoin futures ETF.

“Just like you invest in Apple or Google shares, there is a short-term and long-term threshold. The 24 months is the long-term threshold for stocks and 36 months for exchange-traded funds (ETFs). The LTCG on overseas stocks are taxable at 20% after benefit of indexation. The STCG are taxed as per the slab rates applicable to the Indian investor," said Viram Shah, co-founder and CEO, Vested Finance.

Bitcoin Vest will primarily invest in companies in the cryptocurrency space enabling buying and selling transactions such as Coinbase and Robinhood, companies that are holding bitcoin in their treasury (MicroStrategy and Tesla), bitcoin mining companies and ProShares Bitcoin Strategy ETF (BITO).

The portfolio will have 10-11 constituents that will be equal weighted, meaning there will be an exposure of around 10% to BITO, which is the first bitcoin ETF to be traded in the US.

Vested is also looking to have exposure to other crypto assets such as ethereum via the Grayscale Ethereum Trust, that seeks to track ether market price in the US.

Investors should note that there are no Securities and Exchange Board of India (Sebi) regulated investment products available in the Indian market that invests in crypto assets.

Former Sebi chairman Ajay Tyagi in December had said that the market regulator doesn’t want mutual funds to come up with new fund offers (NFOs) based on crypto assets until the government has announced regulations for cryptocurrencies.

Notably, Invesco Mutual Fund in November had deferred the launch of Invesco CoinShares Global Blockchain ETF Fund of Funds (FoF), given the uncertainty around the regulations of cryptocurrencies in India.

Even Navi Mutual Fund which is part of Sachin Bansal backed Navi Group had filed for a Blockchain Index Fund of Funds (FoF) with Sebi. The scheme is awaiting Sebi’s approval.

While, there aren’t many opportunities for crypto investors, the industry is hopeful that the government will eventually move towards lower tax structure on crypto gains.

“We've gone from a likely 10-year jail term for trading in crypto to 30% tax. Having said that, most people expect the tax rate to change. People are also expecting the TDS amount to become much, much lower as time progresses. But for now, the 30% and 1% is what you have," said Patel.

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