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TODAY'S IMPORTANT CURRENT AFFAIRS
UPSC MAINS

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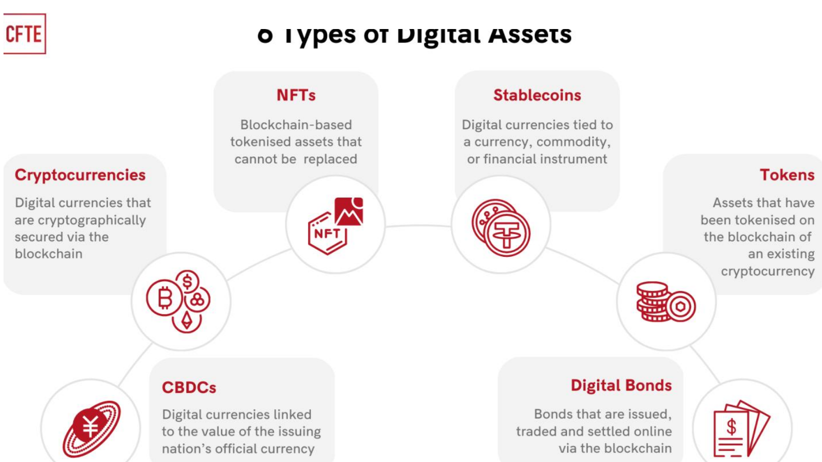
VIRTUAL DIGITAL ASSETS

Source: The post is based on the article published in **"The Hindu"** on **02.06.2025**.

In News: Regulating India's Virtual Digital assets revolution.

Syllabus: ***Mains – GS III(INDIAN ECONOMY-MONEY,TAXATION)***



Virtual Digital Asset (VDA) in India is defined under Section 2(47A) of the Income Tax Act, introduced by the **Finance Act, 2022.**

A VDA refers to **any information, code, number, or token** (not being Indian or foreign currency) generated through **cryptographic means or otherwise,** by whatever name called.

- It must provide a **digital representation of value** that is exchanged with or without consideration, with the promise or representation of having inherent value, or functioning as a store of value or a unit of account.
- It can be **transferred, stored, or traded electronically.**
- The definition specifically includes **non-fungible tokens (NFTs)** and any other token of similar nature.The government can notify additional assets as VDAs or exclude certain assets from this definition.

Challenges of virtal digital asset

1.Regulatory Uncertainty

- VDAs are **not recognized as legal tender** in India, and the regulatory framework is still evolving, creating ambiguity about their legal and tax treatment.
- The absence of a comprehensive regulatory structure makes it difficult for investors and businesses to make long-term decisions.

2. Compliance Complexity

- The **30% fl**at tax rate and 1% TDS on VDA transactions require **meticulous record-keeping,** especially for frequent traders.
- Peer-to-peer transactions and the responsibility for TDS deduction add further compliance burdens, increasing the risk of unintentional non-compliance.

3. Treatment of Different VDAs

- Cryptocurrencies, NFTs, and other digital tokens have **distinct economic characteristics,** but current tax and legal frameworks do not differentiate between them, leading to confusion and potential disputes.

4. Anonymity and Traceability

- Many VDAs offer high levels of anonymity, making it difficult for authorities to **trace** transactions and identify the source of funds.
- Tools like cryptocurrency mixers further **obscure transaction origins**, aiding illicit activities.

5. Decentralization

- The decentralized nature of VDAs means there is **no central authority** to regulate or shut down, complicating enforcement and oversight.

6. Cybersecurity Risks

- VDAs are vulnerable to **hacking, fraud, and theft**. Several exchanges have suffered major security breaches, resulting in significant financial losses for users.

7. Use in Illicit Activities

- VDAs can be exploited for money laundering, terrorism financing, and other **illegal purposes** due to their pseudonymous and cross-border nature.

8. Volatility

- VDA prices can **fluctuate dramatically**, making them risky investments and unsuitable as stable means of payment.

9. Impact on Businesses and Investors

- High taxes, compliance burdens, and regulatory ambiguity deter participation and can drive **exchanges a**nd talent offshore.
- NFT creators face additional challenges, such as **non-deductible expenses** and unclear tax treatment, reducing profitability.

10. Global Coordination and Regulatory Arbitrage

- **Inconsistent regulations** across countries allow users to **exploit loopholes** by shifting activities to less regulated jurisdictions, reducing oversight and increasing risks

Regulation of Virtual Digital Assets (VDAs) in India:

Current Government Measures in India

- **Heavy Taxation:**

  - India imposes a **30% capital gains tax** and **1% TDS on all VDA transactions,** as per Section 115BBH of the Income Tax Act, updated by the Finance Acts of 2022 and 2025.
  - This tax regime was intended to monitor and bring VDA transactions under the tax net, but has also resulted in liquidity constraints, a sharp decline in trading volumes on Indian exchanges, and a migration of users to offshore platforms.

- **AML/CFT Coverage:**

  - VDAs are covered **under the Prevention of Money Laundering Act (PMLA)**, bringing crypto exchanges and wallet providers under **mandatory KYC** and reporting obligations to combat money laundering and terrorism financing.

But we have, Lack of Comprehensive Regulation:

- The **Supreme Court** and policy experts have criticized the absence of a clear, **cohesive legal framework for VDAs.**
- Overreliance on taxation, without enabling regulation or investor safeguards, has pushed most trading activity to non-compliant, offshore exchanges, undermining oversight and causing significant tax revenue loss

International Measures

European Union (EU):

- The EU's Markets in Crypto-Assets (MiCA) regulations focus on risk assessment, licensing, consumer protection, and transparency, providing a unified legal framework for crypto assets.

Japan:

- Japan has a proactive licensing regime, requiring crypto exchanges to register with financial authorities, comply with strict AML/CFT norms, and maintain robust consumer protection standards.

Dubai:

- Dubai established the Virtual Assets Regulatory Authority (VARA), a dedicated body to oversee and regulate all virtual asset activities, ensuring compliance, innovation, and investor safety.

G20 and Global Coordination:

- Under India's G20 presidency, there has been a call for coordinated global regulation of VDAs to prevent regulatory arbitrage, ensure effective oversight, and harmonize standards across jurisdictions.