

India's digital currency sector pushes to shed pariah status



Warming ties with the White House raise industry hopes of lower taxes from New Delhi

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India's cryptocurrency industry is lobbying for cuts to taxes that have curbed domestic trading, in a bid to take advantage of what it sees as New Delhi's softening stance towards digital assets as lawmakers negotiate a wider trade deal with the US.

Once a pariah sector in India because of regulators' suspicion about the potential for criminal activity, policymakers' attitudes towards crypto have been thawing.

Executives at exchanges told the Financial Times that Prime Minister Narendra Modi's government had become markedly more receptive and engagement more frequent following Donald Trump's return to the White House and his embrace of digital currencies.

Industry meetings with policymakers now take place "monthly, if not weekly", up from little more than once every six months until recently, according to Ashish Singhal, co-founder of CoinSwitch, one of India's largest crypto exchanges with more than 20m users. The industry's "big ask", he said, was a reduction in what he described as "very harshly" imposed taxes.

Those include a 30 per cent capital gains tax and a 1 per cent levy on every crypto transaction, introduced in 2022 in an effort to help authorities track and combat criminality. But the effect of

those measures, according to a study by New Delhi-based think-tank the Eysa Centre, was to push more than 90 per cent of digital asset trading by Indians offshore.

"Thanks to Trump, the positive momentum that has happened in crypto has impacted India as well," Singhal said, adding that a 0.1 per cent transaction tax would achieve the same traceability objectives without discouraging trading. "Now regulators are more closely talking to us, understanding what the space is."

The world's two largest crypto exchanges, Binance and Coinbase, which had left the country, have re-entered. They are trying to get a piece of a crypto market in the world's most populous nation that is expected to grow to more than \$15bn in 2035 from \$2.5bn last year, according to estimates by accountancy firm Grant Thornton.

"Competition has definitely started heating up," said Kush Wadiwala, partner at Grant Thornton's Indian arm. "India doesn't have any option but to adopt it,

but the problem for them is money laundering and tax evasion — they're not saying 'don't do it', but they want a control on it."

Shortly after Trump's inauguration in January, India's economic affairs secretary Ajay Seth said the government would redraft a key industry discussion paper designed to shape crypto policy. Seth did not respond to a request for comment.

But following India's budget in February, the Bharat Web5 Association lobby group said it was "disappointed" no tax relief on virtual assets had been announced. "Taxation is a concern," said Naga Harish, senior associate at Bengaluru-based exchange Mudrex. "It's sort of a deal breaker."

After gaining a key Indian regulatory approval this year, Coinbase's vice-president for international policy Tom Duff Gordon said Trump's return was fuelling industry momentum globally. There is a growing recognition from the Indian government "that you can't kind of turn this off, you can't ban it", he

Brighter days:
Coinbase has re-entered the Indian crypto market as regulators ease their opposition
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added. "Taxation is not a priority of us right now, but we do think over time there may be a win-win where the government sees an opportunity to increase the tax base and to onshore some of that offshore activity," he said.

The Reserve Bank of India has been the sector's most vocal critic, with one deputy governor in 2022 calling crypto "akin to Ponzi schemes".

In 2018, it ordered a ban on banking services to crypto companies, making it difficult for them to operate, although the prohibition was overturned two years later by the country's Supreme Court.

More recently, in December, the RBI warned that the adoption of crypto would have "consequences" for economic and financial stability. However, new governor Sanjay Malhotra has avoided direct criticism of the sector, instead saying that it is awaiting the government's industry paper.

Singhal at CoinSwitch said the relationship with the RBI "has gone from negative to neutral. I will still not quite call it positive yet". He added that "we are still maybe a couple of years away from proper regulation... which could help the industry gain further steam".

The other challenge for the industry was to change Indians' perception of digital coins, said Sunit Desai, who leads the disruptive technologies team at Nishith Desai Associates, a law firm that fought the RBI's attempt to ban banking services to crypto in the Supreme Court.

"Most of the people in India still think it's illegal," he said, though many youngsters from wealthy backgrounds were embracing digital assets. "They have family offices and they are telling their parents to buy crypto."

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'We are still maybe a couple of years away from proper regulation'

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