



## The legal landscape of cryptocurrency in India: Challenges and prospects

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### Abstract

Technological advancements and market shifts have paved the way for the growth of the payment industry, creating opportunities for virtual digital assets and virtual currencies. Cryptocurrency, a subset of virtual currency, provides a digital representation of value, tokens, and other assets utilizing blockchain technology and cryptographic methods. Prominent examples include Bitcoin, Ethereum, Tether, and others, which, despite their market volatility, facilitate secure transactions and offer access to the global financial ecosystem. Operated on decentralized blockchain networks, cryptocurrencies face scalability and technological limitations.

On the downside, cryptocurrencies are often linked to illicit activities such as money laundering, terrorist financing, fraud, scams, market manipulation, high energy consumption, and regulatory concerns. Post-demonetization in 2016, the Unified Payments Interface (UPI) revolutionized India's digital payment landscape, driving significant changes in the digital currency market. These changes have been accompanied by evolving regulations, growing interest, and fluctuating government policies. The status of cryptocurrency in India remains uncertain. In 2018, the Reserve Bank of India (RBI) banned financial institutions from offering services linked to cryptocurrencies, but this was overturned by the Supreme Court in 2020. In the Union Budget 2022, it was clarified that cryptocurrencies are not recognized as legal tender in India, although they are subject to capital gains taxation. Additionally, the Cryptocurrency Bill 2021, introduced in the Lok Sabha, is still under consideration.

Amidst the hype and evolving perspectives, the legality and regulatory framework for cryptocurrencies in India remain ambiguous. This paper aims to explore the necessity for comprehensive legislation to regulate blockchain and cryptocurrency, providing clarity on their status and unlocking their potential benefits.

**Keywords:** Cryptocurrency, virtual digital assets, blockchain technology, decentralized networks, digital payments, unified payments interface (UPI), regulatory risks

### Introduction

Blockchain technology is a groundbreaking innovation in the digital transformation era, offering enhanced efficiency, robust security, and unparalleled transparency across various industries. Spanning finance, supply chain management, healthcare, and governance, blockchain has become the foundation of the digital revolution, driving transformative changes in numerous fields. At its core, blockchain functions as a decentralized ledger system that records transactions across multiple devices, ensuring that data, once recorded, remains tamper-proof. This immutable nature of blockchain builds trust and confidence among its users<sup>[1]</sup>.

India's journey with cryptocurrency began modestly, aligning with global trends. The early 2010s marked the introduction of Bitcoin and a budding interest in digital assets. However, in the absence of explicit regulatory guidelines, the Indian crypto ecosystem operated in a gray area, driven by enthusiasm but shadowed by uncertainty.

The Indian government is still formulating specific rules for virtual currencies, though existing laws like the Prevention of Money Laundering Act have been updated to include digital assets. Despite these efforts, the rapid evolution of this technology often outpaces the current legal framework, particularly in India. This highlights the critical need for comprehensive blockchain legislation.

Government policies and the Reserve Bank of India's directives play a pivotal role in shaping the trajectory of cryptocurrencies in the country. The future of cryptocurrency adoption and use in India largely hinges on

the development of these regulatory frameworks. Recognizing the transformative potential of blockchain technology, India, with its vast technological capabilities and expanding digital economy, is striving to create legislation that balances consumer protection with the encouragement of innovation.

As technology continues to permeate various sectors, the lack of clear regulations can result in ambiguities, misuse, and missed opportunities for growth. Traditional legislative approaches often fall short in addressing the decentralized nature of blockchain. This calls for innovative regulatory solutions tailored to India's unique socioeconomic landscape<sup>[2]</sup>.

### Blockchain and cryptocurrency: Conceptual analysis

Blockchain is a distinctive decentralized ledger system that operates without a central authority, ensuring secure and transparent digital transactions. Its decentralized framework is particularly beneficial for industries such as banking and finance, offering enhanced security, scalability, and cost-efficiency, thereby proving invaluable. As a transparent ledger, blockchain supports safe transactions and serves as a platform for trading digital currencies within the cryptocurrency ecosystem.

In India, while cryptocurrencies are not recognized as legal tender, they are classified as capital assets and are subject to capital gains tax. The Income Tax Department categorizes crypto earnings under capital gains, with the applicable tax rate depending on the holding period of the asset.

On the regulatory front, India maintains a cautious stance. The Reserve Bank of India (RBI) has consistently warned of

the risks associated with cryptocurrencies. Although the RBI initially restricted banks from engaging in cryptocurrency-related transactions, this decision was overturned by the Supreme Court in 2020, opening the door to potential legalization. Despite the absence of a blanket ban on owning or trading digital currencies, the RBI's directives still impose restrictions on services tied to cryptocurrencies, including mining activities<sup>5</sup>.

Overall, India's approach to cryptocurrencies reflects a mix of caution and optimism, with regulatory frameworks still evolving to address this emerging sector comprehensively.

### Current state of blockchain legislation in India

India's legislative framework for blockchain technology is in a phase of transition and development. Currently, no dedicated law exclusively governs blockchain technology; however, the government is actively working on establishing regulatory frameworks to manage its applications, particularly in the context of cryptocurrencies. Instead of a standalone legal structure, the regulatory environment is shaped by advisories, circulars, and guidelines issued by various regulatory bodies, such as the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI).

The lack of specific legislation has created uncertainties in the sector, leaving stakeholders in anticipation of clear and comprehensive directives to navigate this emerging technology effectively.

### Status of cryptocurrency in India: Legal or illegal

The legality of cryptocurrency in India has been a highly debated issue in recent times, with the government adopting a dynamic approach through its decisions. In November 2017, the Inter-Ministerial Committee recommended a complete ban on private cryptocurrencies. Following this, in April 2018, the Reserve Bank of India (RBI) issued a circular warning users, holders, and traders about the risks associated with virtual currencies (VCs), including Bitcoin. The RBI clarified, "The Reserve Bank of India advises that it has not given any license/authorization to any entity/company to operate such schemes or deal with Bitcoin or any virtual currency. As such, any user, holder, investor, trader, etc., dealing with Virtual Currencies will be doing so at their own risk."

This advisory significantly hindered the growth of the cryptocurrency industry in India, as cryptocurrency exchanges rely on banking institutions for fund transfers. The lack of access to banking services posed challenges to the expansion of the sector<sup>[3]</sup>.

The committee, along with its report, presented a draft bill titled '*Banning of Cryptocurrency & Regulation of Official Digital Currency Bill, 2019*'. The bill emphasized the potential benefits of distributed ledger technology (DLT) while also highlighting the risks, such as price volatility. It proposed banning cryptocurrencies altogether and recommended penalties and fines for any activities related to cryptocurrencies in India.

In response, cryptocurrency trading platforms filed a writ petition with the Supreme Court. In the landmark case of *Internet and Mobile Association of India v. Reserve Bank of India*<sup>[4]</sup>, the apex court held that the complete prohibition of cryptocurrency trade and the indirect removal of virtual currency (VC) exchanges from India's industrial ecosystem was neither a reasonable measure nor proportional. While

the judgment struck down specific RBI circulars, it refrained from making a definitive ruling on the legality or illegality of virtual currencies.

The Finance Ministry introduced the '*Cryptocurrency and Regulation of Official Digital Currency Bill, 2021*' in the Lok Sabha, aiming to ban all private cryptocurrencies and pave the way for the introduction of a Central Bank Digital Currency (CBDC). Recognizing the growing volume and frequency of virtual digital asset (VDA) transactions, Finance Minister Nirmala Sitharaman announced in the Union Budget 2022 the taxation of income from VDAs at a flat rate of 30%. Furthermore, no deductions, apart from the cost of acquisition, are allowed when calculating taxable income from such transactions.

However, taxation does not equate to full legalization, as cryptocurrencies currently lack a defined regulatory framework in India. Traders and stakeholders continue to await comprehensive legislation addressing the legal, transactional, and mining aspects of cryptocurrencies in the country.

### Existing regulations

Discussions about introducing a "*Crypto Regulation Bill*" in India remain ongoing. Currently, blockchain-related activities are governed by existing regulations. The Companies Act of 2013 requires companies dealing with blockchain to disclose their virtual digital assets (VDAs) in financial statements. Under the Income Tax Act of 1961, income from VDAs is taxed at 30%, along with a 1% TDS on transactions exceeding ₹50,000. Additionally, laws like the Prevention of Money Laundering Act (PMLA) and the Foreign Exchange Management Act (FEMA) provide mechanisms to address crypto-related financial offenses.

Regulatory bodies, particularly the Reserve Bank of India (RBI), maintain a cautious stance. The RBI has restricted banks from engaging in direct crypto dealings while simultaneously exploring the creation of a Central Bank Digital Currency (CBDC).

Even in the absence of dedicated legislation, significant steps have been proposed. The InterMinisterial Committee (IMC) Report on VDAs, released by the Finance Ministry in 2021, recommended a regulatory framework for VDAs instead of a complete ban. Key suggestions included establishing a Digital Currency Regulatory Authority (DCRA) and introducing a CBDC.

During its G20 presidency in 2023, India played a pivotal role in advocating for international cooperation on cryptocurrency regulation, emphasizing the need for a balanced and coordinated global approach to this rapidly evolving sector.

### Cryptocurrency and regulation of digital currency bill, 2021

The '*Cryptocurrency and Regulation of Official Digital Currency Bill, 2021*' was introduced during Parliament's winter session in the Lok Sabha, addressing concerns around the banning of decentralized cryptocurrencies in India. The bill prohibits all private cryptocurrencies within the country. The Ministry of Finance stated that any legal regulations or prohibitions would be enforced only after extensive international collaboration to evaluate the benefits and drawbacks of such regulations, and to establish a unified taxonomy and set of criteria.

The bill proposes a regulatory framework for crypto-assets, aiming to curb unauthorized trading of private cryptocurrencies. It also integrates laws such as the Prevention of Money Laundering Act (PMLA), 2022, to prevent activities like terrorist financing. This framework is intended to support the implementation of the Reserve Bank of India's (RBI) Central Bank Digital Currency (CBDC) as legal tender in India.

However, the bill has certain drawbacks. The prohibition of decentralized cryptocurrency trading and the application of blockchain technology would undermine decentralized finance (DeFi), which is a fundamental feature of cryptocurrencies. Additionally, the bill restricts crypto-assets and cryptocurrency trading to Indian exchanges, limiting the use of private crypto wallets, and as of now, there are no comprehensive regulatory frameworks for cryptocurrencies and digital assets.

### **Analysis of the impact of existing legislation on blockchain technology in India**

India has adopted a progressive approach toward blockchain technology, supported by a range of evolving laws, policies, strategies, and regulations. In 2021, the country unveiled its *National Strategy on Blockchain*, aiming to establish a geographically distributed blockchain infrastructure and offer "blockchain as a service." However, this optimism is tempered by concerns raised by the Reserve Bank of India (RBI) regarding the macro-financial risks associated with Virtual Digital Assets (VDAs). In its 2023 report, the RBI highlighted critical issues such as consumer protection, financial stability, and the unique challenges posed by emerging economies. Additionally, the regulatory framework has expanded to include measures to address cybersecurity concerns related to blockchain technology.

### **CERT 2022 directions**

In 2022, CERT-In (Computer Emergency Response Team) issued directives that required the rapid reporting of cyber incidents related to blockchain and Virtual Digital Assets (VDAs), highlighting the importance of information security.

At the same time, the Reserve Bank of India (RBI) took a significant step by introducing the e-rupee, India's Central Bank Digital Currency (CBDC). By mid-2023, successful pilot tests involving multiple banks and millions of users demonstrated India's commitment to leveraging digital currencies for enhanced efficiency and innovation<sup>[5]</sup>.

### **Money laundering, taxation, and digital lending in the VDA space**

Concerns about money laundering led the Ministry of Finance to extend the Prevention of Money Laundering Act (PMLA) to entities dealing with Virtual Digital Assets (VDAs). This move grants authorities the ability to monitor encrypted transactions, emphasizing the government's commitment to ensuring transparency and accountability in the sector. Taxation has also been a key focus. The 2021 amendments to the Income Tax Act established a specific tax regime for VDAs, including the inclusion of non-fungible tokens (NFTs), while excluding certain closed-system instruments.

The government's approach, which includes a 30% tax on VDA transfers and guidelines for peer-to-peer transactions, aims to strike a balance between fostering innovation and

generating revenue. In the area of digital lending, the Reserve Bank of India (RBI) raised concerns about unregulated digital lending platforms. The central bank's recommendations reflect broader government concerns regarding financial stability and the need to protect consumers in the rapidly evolving digital financial space.

### **Parliamentary dialogue and debates**

Parliamentary inquiries have shed further light on the government's position regarding blockchain and cryptocurrency regulation. While acknowledging the transformative potential of blockchain and Web3 technologies, the government has underscored the importance of international cooperation in regulating cross-border crypto assets. Notably, investigations into cryptocurrency-related evasion and illicit activities reflect the government's proactive approach in combating malpractices within the sector.

In essence, India's legislative framework for blockchain technology represents a careful balancing act. The nation recognizes the disruptive potential of blockchain and digital assets but is simultaneously focused on implementing regulatory measures that mitigate risks, uphold financial integrity, and protect consumer interests.

As India continues to navigate this complex regulatory landscape, the broader implications for blockchain technology are far-reaching, influencing its adoption, innovation, and integration into the digital economy.

### **India's position in the crypto global market**

India's relationship with cryptocurrency indeed reflects a fascinating duality. The country stands as the second-largest crypto market globally by transaction volume, driven by its techsavvy population and increasing interest in digital assets. However, the regulatory environment remains murky, with an inconsistent framework and a lack of comprehensive legislation, causing ambiguity for stakeholders in the sector.

The uncertainty surrounding cryptocurrency mining is similarly pervasive, compounded by the fragmented global legal landscape. Different countries approach the legality and regulation of crypto mining in varying ways. For example, Israel treats mining as a business activity and subjects it to business taxation, while entities like the U.S.'s Financial Crimes Enforcement Network (FinCEN) classify miners under money transmitter restrictions. While countries like the United States and Canada have adopted a more supportive stance on cryptocurrency mining, only a few nations have explicitly banned it.

This global diversity in regulatory approaches adds to the complexities of cryptocurrency mining in India, where the lack of clear, cohesive rules on such activities continues to create uncertainty.

### **Legal status of cryptocurrency in other countries**

Cryptocurrency's legal status varies significantly around the world, with different countries adopting different approaches based on their regulatory frameworks.

In the United States, cryptocurrencies are not considered legal tender, but cryptocurrency exchanges are legal, with regulation varying by state. The country's decentralized stance allows different states to regulate crypto activities according to their own rules.



In Singapore, while cryptocurrencies are not recognized as legal tender, cryptocurrency exchanges are permitted and must register with the Monetary Authority of Singapore (MAS), ensuring a controlled but supportive regulatory environment.

Australia treats cryptocurrency as property, and its exchange is legal. It mandates registration with the Australian Transaction Reports and Analysis Centre (AUSTRAC). Additionally, the country plans to introduce a new licensing framework to allow consumers to purchase and sell crypto assets in a regulated space, which would increase security and transparency.

Japan is known for its progressive regulatory environment regarding cryptocurrencies. Similar to Australia, it treats cryptocurrencies as property, with exchanges required to register with the Financial Services Agency (FSA). Japan's regulatory framework is one of the most advanced globally and recognizes cryptocurrencies like Bitcoin under the Payment Services Act (PSA). Future regulations are likely to include stronger security protocols and obligations for service providers to report suspicious activities.

In China, cryptocurrency exchanges are illegal, and cryptocurrencies are not considered legal tender. China imposed a blanket ban on domestic crypto mining and outlawed cryptocurrencies in September 2021. However, China has been actively pursuing its own digital currency, e-CNY, with pilot tests already completed, marking the country's intent to introduce an official government-backed cryptocurrency.

These examples highlight how countries differ in their approach to cryptocurrency, with some adopting open frameworks and others imposing strict restrictions or bans. The global inconsistency in crypto regulation emphasizes the need for international collaboration and unified standards, especially in regions where crypto laws are still developing or unclear.

### Positive and negative aspects of blockchain & cryptocurrency

Blockchain technology plays a crucial role in the functioning of cryptocurrencies by offering decentralization and securing transaction records. Much like a coin having two sides, blockchain and cryptocurrency are interdependent, each with their own set of advantages and disadvantages.

#### Positive aspects:

- **Immutability:** Unlike traditional data systems that follow the CRUD (Create, Read, Update, Delete) model, blockchain ensures that recorded data cannot be altered or deleted, preventing any tampering. The creation of an irreversible audit trail makes it easy to track changes within the network.
- **Transparency:** Blockchain's decentralized nature builds trust, as the data is open for public verification, providing greater transparency than centralized systems.
- **Censorship resistance:** Since blockchain operates without a central authority, it remains immune to censorship. No single entity, including governments, can shut it down or interfere with the network.
- **Direct transfers:** Blockchain simplifies cryptocurrency transactions by allowing direct peer-to-peer transfers

without the need for intermediaries, and it offers potential for earning returns.

- **Efficient remittances:** Blockchain enhances the efficiency of cross-border transactions, making them faster and more accessible to users worldwide.

#### Negative aspects:

- **Performance limitations:** Blockchain's reliance on cryptographic operations can hinder speed and overall performance, especially in systems with heavy transaction loads.
- **Higher costs:** Compared to traditional databases, blockchain technology can be more expensive to implement and maintain, often requiring careful planning and execution by businesses.
- **Immutability constraints:** Once data is recorded on the blockchain, modifying it is a difficult and costly process. Adjustments require rewriting the code in each block, which can be time-consuming.
- **Price volatility:** Cryptocurrencies are known for their price fluctuations, which can make them risky investments and demand careful monitoring.
- **Privacy issues:** The pseudonymous nature of cryptocurrency transactions can raise concerns in certain situations, as it can be used to trace financial activities.
- **Illicit use:** Cryptocurrencies have often been linked to illegal activities such as money laundering, illegal transactions, and purchases on the dark web, and are sometimes exploited by hackers and criminals.
- **Energy consumption:** Crypto mining is energy-intensive, sometimes consuming as much energy as an entire country, contributing to environmental concerns [6].

### Need for the legal framework for the regulation of blockchain and cryptocurrency in India

India stands at a crossroads in terms of blockchain and cryptocurrency regulation, with an urgent need for a comprehensive legal framework to address the unique challenges posed by these technologies. As the country emerges as one of the fastest-growing digital economies in the world, cryptocurrencies and blockchain technology have gained significant traction among investors, businesses, and innovators. However, the rapid adoption of these technologies has led to growing concerns around investor protection, financial stability, money laundering, and consumer safety, which underscores the necessity for clear, robust regulations.

The lack of a dedicated legal framework for cryptocurrencies has resulted in uncertainty for both individuals and businesses. Despite the government's acknowledgment of the potential of blockchain and cryptocurrencies, the absence of clear tax guidelines and regulatory standards has created confusion. India's taxation policy has been evolving, with the introduction of amendments to the Income Tax Act, which impose a 30%

tax on earnings from virtual digital assets (VDAs) and a 1% TDS on transactions above 50,000 INR. Yet, these provisions remain fragmented, and further clarity is needed on how cryptocurrencies should be treated in terms of capital assets and reporting requirements.

Additionally, cryptocurrencies are often linked with illicit activities, including money laundering and terrorist financing, due to their pseudonymous and decentralized nature. The government has extended the Prevention of Money Laundering Act (PMLA) to address such concerns, but a comprehensive framework to regulate crypto transactions is necessary to improve transparency and prevent abuse. There is also the need for regulatory oversight to curb the volatility of the crypto market, which can lead to significant financial losses for investors and undermine financial stability. With an increasing number of cases involving fraud, scams, and market manipulation, India must move swiftly to implement a legal structure that protects investors and fosters a safe investment environment.

The Indian government has already made strides by exploring the development of a Central Bank Digital Currency (CBDC) as part of its effort to modernize the financial system. However, the introduction of a CBDC necessitates the creation of a strong regulatory foundation that can address the issues associated with the broader crypto space. A legal framework that clearly defines the legal status of cryptocurrencies, addresses their taxation, and ensures that platforms operate transparently and securely will facilitate the growth of blockchain technology while minimizing its risks.

India's growing role in global digital finance also demands international collaboration in setting standards and regulations for cryptocurrencies. As the world becomes more interconnected, aligning with international best practices is crucial to creating a competitive and secure environment for innovation in the blockchain space. A clear and comprehensive legal framework will not only help India navigate its regulatory challenges but also position it as a leader in the digital economy, ensuring that blockchain and cryptocurrencies can flourish responsibly.

### **Reserve Bank of India's Stance on cryptocurrencies and blockchain**

The Reserve Bank of India (RBI) has consistently expressed concerns regarding cryptocurrencies and blockchain technology. In 2013, the RBI issued a cautionary statement, warning users, holders, investors, and traders about the potential risks associated with virtual currencies, including Bitcoin, and clarified that it had not authorized any entity to operate such schemes or deal with virtual currencies.

In 2018, the RBI implemented a banking ban, prohibiting banks and financial institutions from providing services to individuals or businesses dealing with virtual currencies. However, this ban was overturned by the Supreme Court of India in 2020, reinstating the legality of cryptocurrency transactions.

Despite the Supreme Court's decision, the RBI has maintained its cautious stance. In recent statements, RBI Governor Shaktikanta Das emphasized that cryptocurrencies pose significant risks to financial and monetary stability, potentially undermining central banks' control over the money supply. He called for international cooperation to address these threats, highlighting the need for a coordinated global approach to cryptocurrency regulation.

In response to the growing interest in digital currencies, the RBI has been exploring the development of a Central Bank Digital Currency (CBDC). The pilot for the digital rupee commenced in November 2022, with the wholesale segment focusing on the settlement of secondary market transactions in government securities. The retail segment pilot began in December 2022, aiming to assess the feasibility and implications of a digital currency issued by the central bank. Overall, the RBI's approach reflects a balance between acknowledging the potential benefits of blockchain technology and cryptocurrencies and addressing the associated risks to financial stability and monetary policy. The central bank continues to monitor developments in the crypto space, advocating for a cautious and well-regulated environment.

### **Prospective legislation and its implications for blockchain in India**

India is poised for a significant legislative transformation aimed at strengthening the digital landscape, with a primary focus on internet governance, data protection, and cybersecurity. As part of this transition, the government is set to implement key regulations that will impact blockchain and cryptocurrency businesses, ensuring a more structured and secure digital environment. Some of the crucial legislative changes on the horizon include:

#### **1. National data governance framework policy (2022):**

Introduced by the Ministry of Electronics and Information Technology (MeitY), this policy aims to modernize data management practices in India. By facilitating the creation of repositories of nonprivate data, it provides crucial support for sectors like artificial intelligence (AI) and blockchain, fostering innovation and regulatory clarity for companies in these fields<sup>[7]</sup>.

#### **2. National cyber security strategy:** Developed by the National Security Council Secretariat, this strategy outlines a comprehensive approach to India's growing cybersecurity challenges. It aims to safeguard digital assets and infrastructure, ensuring that blockchain technology and other emerging digital tools are protected from cyber threats.

#### **3. Digital Personal Data Protection Act (2023):**

Replacing the earlier withdrawn Data Protection Bill of 2019, this Act focuses on safeguarding personal data in the digital sphere. With the increasing reliance on blockchain and digital assets, this law ensures that individuals' personal information is handled securely and in compliance with privacy standards, making it imperative for blockchain operators to align with these privacy regulations.

#### **4. Proposed Digital India Act 2023:** This proposed legislation is intended to consolidate and modernize India's existing IT laws. It aims to regulate emerging technologies such as AI, blockchain, and Web 3.0, reflecting the government's forward-thinking approach to digital transformation. This Act will shape the legal framework for blockchain companies, providing clarity and establishing necessary regulations for their operations<sup>[8]</sup>.

These upcoming legal frameworks underscore the necessity for blockchain companies operating in India to stay adaptable and compliant with evolving regulations. As India continues to advance its digital agenda, blockchain businesses must proactively engage with these regulatory changes to ensure their operations remain sustainable and legally sound.

### **Recommendations for legislation in India's blockchain landscape**

India should consider adopting a comprehensive regulatory framework for cryptocurrencies and blockchain technology to ensure the sector's growth is both sustainable and secure. A structured approval process for Initial Coin Offerings (ICOs) and a mandatory licensing system for trading platforms would promote transparency and safeguard investors from fraudulent activities. These measures would not only bolster investor confidence but also ensure that businesses operate within a clear and regulated environment.

Collaboration and stakeholder engagement are crucial to building an inclusive regulatory ecosystem. The government must facilitate ongoing dialogues with industry experts, legal professionals, and blockchain innovators to create policies that are balanced and effective. This will help address any concerns about regulation while encouraging innovation in the sector.

Another critical area for India's blockchain strategy is providing clarity on cryptocurrency taxation. Treating cryptocurrencies as capital assets with a defined tax regime will streamline the taxation process and offer certainty to investors and businesses alike.

Regulatory sandboxes can be an effective tool for blockchain startups and innovators to test their solutions under a controlled regulatory framework. These sandboxes would allow businesses to comply with regulatory standards while simultaneously pushing the envelope in technological advancements, facilitating both innovation and legal compliance.

Additionally, India should look to global frameworks like those in Singapore and Switzerland for insights into best practices. These countries have established comprehensive regulations that strike a balance between fostering innovation and protecting consumers, offering valuable lessons for India as it crafts its own regulatory blueprint.

Public awareness and education initiatives can play a key role in empowering citizens to understand the potential and risks associated with cryptocurrencies and blockchain technology. This can be achieved through educational campaigns, seminars, and community outreach programs to build informed communities that can safely participate in the digital economy.

Finally, India's unique socio-cultural and economic landscape provides a fertile ground for blockchain's transformative potential. By leveraging this distinctive context, India can foster a regulatory environment that supports innovation while also ensuring that emerging technologies like blockchain contribute positively to its economy and society.

Drawing insights from countries like Japan, Malta, and China, India can develop a nuanced and robust regulatory framework that nurtures blockchain innovation while addressing the risks associated with it.

### **Conclusion**

India stands at a crucial juncture in its blockchain and cryptocurrency journey, positioning itself as one of the fastest-growing digital economies in the world. The country acknowledges the transformative potential of blockchain and cryptocurrencies but also faces challenges arising from the inherent volatility and risks associated with digital assets. India's evolving stance, transitioning from initial caution to more recent legislative initiatives, demonstrates its commitment to creating a secure, innovative, and forward-looking digital ecosystem. Upcoming legislative measures, such as the National Data Governance Framework and the

Digital India Act 2023, illustrate India's proactive approach toward aligning its digital laws with global standards. These initiatives, combined with ongoing parliamentary dialogues and international collaborations, highlight a rapidly maturing regulatory landscape. For stakeholders, innovators, and investors in the blockchain space, understanding this dynamic regulatory environment is essential to navigating the complexities and capitalizing on opportunities. A clear, balanced, and progressive regulatory framework is crucial to ensuring consumer protection, maintaining financial stability, and promoting innovation. This framework will not only safeguard participants in the digital economy but also create an enabling environment for the growth of blockchain technologies. By prioritizing inclusion and adopting a robust cybersecurity framework, India can foster a thriving blockchain startup ecosystem. Moreover, fiscal incentives and research grants can further encourage innovation and technological development in the blockchain space, driving both economic and technological growth. In doing so, India can cultivate a vibrant blockchain ecosystem, fostering sustainable growth and positioning itself as a global leader in the digital economy.

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