

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

RAJYA SABHA
UNSTARRED QUESTION NO. 1171
TO BE ANSWERED ON TUESDAY, FEBRUARY 10, 2026/ 21 MAGHA, 1947 (SAKA)

Challenges in taxation of Virtual Digital Assets

1171 Shri Pramod Tiwari:

Will the Minister of FINANCE be pleased to state:

- (a) the financial stability risks being posed by Virtual Digital Assets (VDAs) in the country;
- (b) whether VDAs pose serious challenges for tax administration;
- (c) if so, the details thereof including regulatory and enforcement challenges; and
- (d) the steps taken/proposed to be taken to address the challenges?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI PANKAJ CHAUDHARY)

(a): The Virtual Digital Assets (VDAs)/ crypto assets are currently unregulated in India. The Financial Stability Board (FSB), the standard setting body for global financial stability, in its assessments of risks to financial stability from VDAs highlights from time to time that financial stability risks may emerge as VDAs become increasingly interconnected with the wider financial system. Accordingly, the Reserve Bank of India (RBI) periodically assesses the risks and potential impact of VDAs on domestic financial stability. These assessments are reflected in the Bank's public communications and in its Financial Stability Reports. The RBI's Financial Stability Report (December 2024) notes that the linkages between the VDA sector and the regulated financial system remain limited at present.

(b) to (d): VDAs present regulatory and enforcement challenges for tax administration due to their pseudonymous nature, borderless functionality, and near-instant transferability. The widespread use of offshore exchanges, private wallets, and decentralised platforms hampers accurate detection of income arising from VDA transactions and correct identification of beneficial ownership, thereby increasing the risk of income escaping taxation.

The steps taken by the Government to address the challenges are as under:

- (i) In the Finance Act 2022, taxation of virtual digital assets (VDA) had been introduced under section 115BBH of the Income Tax Act, 1961 (the Act), in which the transfer of VDA is to be taxed at the rate of 30% with no deduction in respect of expenditure (other than cost of acquisition) to be allowed. Moreover, loss from the transfer of a virtual digital asset cannot be set off from any other income and cannot be carried forward to subsequent years.
- (ii) To define VDA, clause (47A) was inserted in section 2 of the Act. Further, to capture VDA transaction details, section 194S has been inserted in the Act to provide for the deduction of tax on the payment of transfer of VDA at the rate of 1% of the transaction value, including cases where the transaction occurs in kind or partly in cash.
- (iii) Section 56 of the Act has also been amended to cover the scenario where VDA is gifted to provide for tax in the hands of the recipient.
- (iv) Definition of VDA w/s 2(47A) of the Act: A virtual digital asset means any information or code or number or token (not being Indian currency or any foreign currency), generated through cryptographic means or otherwise, by whatever name called, providing a digital representation of value which is exchanged with or without consideration, with the promise or representation of having inherent value, or functions as a store of value or a unit of account and includes its use in any financial transaction or investment, but not limited to, investment schemes and can be transferred, stored or traded electronically. Non-fungible tokens and any other tokens of a similar nature are included in the definition.

- (v) The Central Government may notify any other virtual digital asset as a virtual digital asset and such assets which shall not be considered as virtual digital assets. In accordance with the above, the Central Government has made the following notifications - Notification No. 74/2022 dated 30th June 2022 and Notification No.75/2022 dated 30th June 2022. Vide Notification No. 74/2022 dated 30th June 2022, gift card, vouchers, mileage points, reward points, loyalty points, and subscription to websites, platforms, or applications have been excluded from the definition of Virtual Digital Asset. Notification No. 75/2022 dated 30th June 2022 specified that a non-fungible token is a token which qualifies to be a virtual digital asset within the meaning of sub-clause (a) of clause (47A) of section 2 of the Act but does not include a non-fungible token whose transfer results in transfer of ownership of underlying tangible asset and the transfer of ownership of such underlying tangible asset is legally enforceable.
- (vi) In order to widen the tax base from the transactions in VDAs, section 194S provides for the deduction of tax on the transfer of a virtual digital asset to a resident at 1%. Further, no tax is to be deducted in case the payer is the specified person and the value or the aggregate of such value of consideration to a resident is less than Rs. 50,000 during the financial year. In any other case, the said limit is Rs. 10,000 during the financial year. Specified person is defined as an individual / HUF having a business turnover of less than one crore rupees or a professional turnover of less than fifty lakh rupees.
- (vii) Further, section 285BAA has been inserted through the Finance Act, 2025 to mandate specified reporting entities furnish detailed user-level transaction data, rules for which are being finalised, to the Income-tax Department with effect from 1 April 2026. This provision is intended to significantly enhance visibility into VDA transactions and align the crypto ecosystem with the reporting framework applicable to banks and other financial intermediaries.
