

Cryptocurrency: Risk Factor, Modern Finance, Tax Regulation

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ABSTRACT:The study for Cryptocurrency: Risk factor, Modern finance, Tax regulation is conducted to understand the risk factor of cryptocurrency and to identify the position of cryptocurrency in modern financial market and also the tax regulation of cryptocurrency now a days. This study is based in the secondary data collected from journals, articles, magazines, websites etc are taken for study. The suggestions tells that the Cryptocurrency involves few risk factors which may or may not be occurred and there are no tax regulation in India since Cryptocurrency is not legally approved.

KEYWORDS: Risk Factor, Modern Finance, Tax Regulation

I. INTRODUCTION:

Cryptocurrency is a recent phenomenon that is receiving significant attention. On the one hand it is based on a fundamentally new technology, the potential of which is not fully understood. On the other hand, at least in the current form, it fulfils similar functions as other, more traditional assets. Is cryptocurrency a form of a currency, a commodity, a stake in a technology breakthrough, or a completely different instrument.

We focus on three major cryptocurrencies – Bitcoin, Ripple, and Ethereum and start by characterizing of cryptocurrency returns. We observe that the mean and the standard deviation of returns are an order of magnitude higher than those for the traditional asset classes. For example, the weekly mean return on Bitcoin is 3.79 percent with a standard deviation of 16.64 percent. The Sharpe ratios at the daily and weekly levels are about 50 percent and 75 percent higher, and at the monthly level are comparable to those of stocks. The returns have positive skewness increasing with the frequencies from daily to monthly. The returns experience high probabilities of “disasters” and “miracles”. For example, a “disaster” of the daily

20 percent negative return on Bitcoin happens with the probability of 0.5 percent while a “miracle” of the same size happens with the probability of almost 1 percent.

This study offers several contributions. First, it sheds light on these emerging financial instruments’ role in simplifying cross-border transactions, improving transactional privacy and security, providing innovative financing mechanisms, and promoting more financial inclusion. Dorf Leitner & Lung (2018) document that the popularity of cryptocurrencies in the financial context has been marked by exponential market volume growth. We also contribute to this literature by a timely review, and we add to the debate by scrutinizing the themes discussed in the cryptocurrency’s literature.

Although we are in the initial stages of implementation, the interest in this new technology by companies, organizations, and individuals has been growing due to the benefits it can bring: transparency, all those involved have access to consulting the information; modifications to the information can only be made by those who are authorized; cost reduction, by eliminating intermediaries; the possibility of carrying out transactions through Smart Contracts , open innovation, facilitating new forms of relationship between different actors in society . However, this interest is not only from organizations, In fact, in the scientific community this interest has been increasing in recent years, raising a wide spectrum of research about possible application scenarios in the digital economy and smart industries, including financial services.

II. STATEMENT OF THE PROBLEM

The study is conducted to understand the risk factor of cryptocurrency and to identify the position of cryptocurrency in modern financial market and also the tax regulation of cryptocurrency now a days.

III. OBJECTIVE OF THE STUDY

- To understand the Risk factors of cryptocurrency

- To identify the Cryptocurrency in modern finance
- To oversee the Tax regulation on cryptocurrency

IV. RESEARCH METHODOLOGY

Source of Data	Secondary data
Period of Study	Till 2021
Tools used	Journals, Articles, Magazines, Websites etc

V. REVIEW OF LITERATURE

Mike cudd, et.al in the study has attempted to understand the Risk-Return pattern of the Cryptocurrency. The main objective is to understand the Risk-Return pattern of Cryptocurrency and to study the impact of Cryptocurrencies in the Global Economy. The study is based on the Secondary data which includes journals, magazines, newsfeeds and information collected from the websites. Cryptocurrency is the most creative evolvment in the world of finance. The Risk-Return pattern is examined for an array of cryptocurrency contrasting pattern with those of conventional currency and equity investment. The major finding is that the measures of cryptocurrency return and risk to be a very high multiple of those of conventional investments and the pattern is determined to be robust relation to the time frame. Cryptocurrencies are determined to provide an alternative to investment that involves tremendous high risk and return.

AbderahmanRejeb, et.al in the study has attempted to understand the Cryptocurrencies in modern finance. The focus on cryptocurrencies in the finance and banking sectors is gaining momentum. After the global financial crisis of 2008, public trust in conventional banking systems was a concern. Most specifically, the first signs of economic turmoil appeared on March 16, 2008, when Bear Stearns and Lehman Brothers declared bankruptcy. The shock's ramification did not stop at these institutions; instead, the debt contagion continued to spread and hit other financial powerhouses such as AIG, we conducted a narrative literature review using different academic databases, such as Google Scholar, Scopus, Web of Science and Springer Link. cryptocurrencies are a subset of digital currencies that may have either

centralized institutions or are based on a decentralized network. In simple terms, cryptocurrencies are a new type of that is digital and produced from cryptographic algorithms, exchanged across the Internet using protocols such as peer-to-peer networking.

Andrea Peláez-Repiso, et.al in the study has attempted to understand the Tax Regulation on Blockchain and Cryptocurrency: The Implications for Open Innovation. Blockchain is a technology that will change the relationships between the different actors in society, individuals, companies and administration, in aspects as important as taxation, by implementing concepts such as Self-sovereign identity and Smart Contracts; which support, for example, virtual currencies, that are not controlled by any state, financial institution or centralized company. Technological development has contributed decisively to the transformation of the economy and the progress of humanity. Blockchain is one of the technological innovations that present great potential for this progress since it is changing how economic transactions are carried out. The Web of Science database was used as a source to perform the bibliometric analysis. Web of Science is a platform owned by Clarivate Analytics, consisting of a large collection of bibliographic databases, citations, and references from scientific publications in any discipline of knowledge, in science, technology, social sciences, arts, and humanities. This study has shown the lack of collaboration between countries, which may be produced because this is a discipline that is still day-by-day being implemented, although there could be other aspects, such as the lack of international legal and fiscal harmonization to be able to operate with this new technology among the different research scenarios.

Top 10 Crypto that give high return in the last few years of performance

RANK	NAME OF COIN	PERCENTAGE
1	RIPPLE	36,018%
2	NEM	29,842%
3	STELLAR	14,441%
4	DASH	9,265%
5	ETHEREUM	9,162%
6	LITECOIN	5,046%
7	CARDANO	2,782%
8	BITCOIN	1,318%
9	BITCOIN CASH	513%
10	IOTA	501%

VI. RISK FACTORS AFFECTING CRYPTOCURRENCY

- **High-risk speculative products:** with spread betting and CFD trading you only need to deposit a percentage of the value of a trade to open a position. Profits and losses are based on the full value of the trade. The volatility of cryptocurrencies, combined with trading on margin, could lead to significant losses.
- **Affected by gapping:** market volatility can cause prices to move from one level to another without actually passing through the level in between. Gapping (or slippage) usually occurs during periods of high market volatility. As a result, your stop-loss could be executed at a worse level than you had requested. This can worsen losses if the market moves against you.
- **Charges may be greater than with other asset classes:** you should review all costs involved before you trade. Charges may be higher when spread betting or trading CFD cryptocurrencies. The likelihood of making a profit versus the impact of these fees should be considered.
- **Pricing variations:** compared with other currencies, there can be significant variations in the pricing of cryptocurrencies used to determine the value of spread bet and CFD positions.

VII. CRYPTOCURRENCY IN MODERN FINANCE

1. **Crypto - currencies:** an asset on a blockchain and cryptocurrency that can be exchanged or transferred between network participants and hence used as a means of payment—but offers no other benefits.
2. **Crypto - securities:** an asset on a blockchain and cryptocurrency that, in addition, offers the

prospect of future payments, for example a share of profits.

3. **Crypto - utility assets:** an asset on a blockchain and cryptocurrency that, in addition, can be redeemed for or give access to some pre-specified products or services.

VIII. TAX IMPLICATION FOR CRYPTOCURRENCY ASSETS IN INDIA

Cryptocurrency in India may get tax liability, but the rules are still unclear as the Reserve Bank of India has not yet granted this asset class the status of a legal tender. However, in March 2020, the Indian Supreme Court permitted banks to handle cryptocurrency transactions from traders and exchanges.

India’s economic intelligence and law enforcement agency, Enforcement Directorate’s recent move in June, 2021, however, raises doubts over the continued trade of cryptocurrency in India.

The Reserve Bank of India has not yet granted Bitcoin or any other cryptocurrency the status of legal tender in India. Hence, there are no clear rules or guidelines defining taxability for cryptocurrencies, which calls for specific clarification from the Income Tax department.

However, experts have speculated upon various possibilities in which cryptocurrency transactions can be taxed under the Income Tax Act 1961 as well as the Central Goods and Services Tax Act, 2017 – depending on the type of transaction. Meanwhile, the Ministry of Corporate Affairs has made it mandatory for companies to disclose cryptocurrency trading/investments during the financial year.

Taxation under the Income Tax Act (Income from other sources)

These incomes include mining of cryptocurrency, dealing in cryptocurrency solely for the purpose of investment, and receipt of cryptocurrency in the form of gifts. These transactions are taxable under the Income Tax Act.

- **Cryptocurrency generation through mining:** Since the digital currency generated will be treated self-generated assets, there is uncertainty as to how they will be taxed and whether the provisions of capital gains will apply, or if it will be categorized under the head of 'income from other sources. Experts believe that currency generated through mining will indeed be considered under the head of income from other sources. It is to be noted that Section 55 of the Income Tax Act, which deals with the cost of acquisition and improvement, does not recognize mining.
- **Getting Crypto currency in the form of gift:** Gifts received are taxed under the head income from other sources, and are taxed at individual slab-rates. Consequently, cryptocurrency received as gift will be taxed under income from other sources at concerned slab-rate and cryptocurrency received as gift worth INR 50,000 and above shall be entirely taxable.

Taxation under the Central Goods and Services Tax Act

Business activity pertaining to cryptocurrencies or crypto assets, unless specifically exempted, is taxable under the CGST Act.

Indian crypto exchanges have already charge GST from their crypto users. This indirect tax is included in the trading fee that exchanges itself add to the buying price of Bitcoin, Ethereum, Tether, etc. Furthermore, the exchanges should pay GST to the government as part of their general tax payments.

Now, the Central Economic Intelligence Bureau has raised a proposal to the Central Board for Indirect Taxes and Customs to bring cryptocurrency exchanges and platforms under the GST purview. It has suggested that cryptocurrency mining be treated as a supply of service as it generates cryptocurrency and charges transaction fees, and as such, should classify as an intangible asset and attract a GST of 18 percent. The CEIB has also proposed that the taxpayers operating as cryptocurrency miners will be required to register under GST if their annual revenue exceeds INR 2 million. GST will be liable on the transaction fee and/or the reward, which is the currency mined.

Latest reports also suggest that foreign crypto exchanges in India might have to pay GST

at 18 percent on cryptocurrency transactions in our country(India). An equalization lay at two percent might also be imposed on them. To include these overseas crypto exchanges under the Indian tax premises, the Indian government could categorize overseas crypto exchanges with Indian users as Online Information Database Access and Retrieval services.

IX. CONCLUSION

The above study was under taken with the data collected from articles, magazines, journals and websites. Which says that the Risk return pattern for Cryptocurrency is limited to certain extent in which that is very less in probability. There are various factors that may cause uncertainty which turns into risk (eg: When Elon Musk says a negative point on Bitcoin the value of Bitcoin drops to 3.6% in its market value) there are only few examples which denotes the risks of Crypto. In India there is no official announcement for the trade or mine for cryptocurrency to be legal and that made many confusion regarding the Tax payment in India. Though its not legal the users of Cryptocurrencies must pay their taxes on the bases of Income tax and Goods and services Tax (GST) in India.

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