

Trade in Bitcoins gains currency among youth in Mumbai

LUBNA KABLY, TNN Dec 15, 2013, 01.44AM IST

MUMBAI: Move over Dalal Street, Generation Y is more interested in Bitcoin trading. A quick glance at a Bitcoin portal like localbit.com, which brings together local buyers and sellers, shows that Mumbai is very active on the scene.

"Mining of Bitcoins continues to be predominant in tech cities like Bangalore or Hyderabad, but Mumbai is fast catching up," says a city-based Bitcoin trader. He admits to making cash profits of several thousand during the last few months on sale of Bitcoins. A large portion of the trade happens through online exchanges and funds flow from the buyer to seller via proper banking channels.



The current weekly average value of a Bitcoin is \$806 with the buy and sell rate in India, at the time of writing this article, standing at 65,477 and 61,276 respectively.

For those who are late to jump on to this gravy train, Bitcoin is an open source product and these digital coins can be mined, an activity carried out largely by savvy software technologists as massive computer resources are needed to auto-solve complex mathematical algorithms. On successfully solving the problem, a Bitcoin is generated. SourceForge, an online platform that enables download of the Bitcoin mining program ranks India as 17th with 29,986 downloads since January. The actual number of Bitcoin enthusiasts in India is much more, affirm consultants.

"If you try and solve the algorithm using your laptop, it would take thousands of years, thus trading of Bitcoins has become increasingly popular," says Prithwis Mukerjee, a program director in a B-school.

Bitcoins are purchased and sold against real currency at the prevailing exchange value. On purchase, the Bitcoin moves from the wallet of the seller to that of the buyer. Each wallet has its own unique 33 characters and all Bitcoin wallets are synchronized, thus a fraudulent entry by any one person is impossible. "While trading is done in pseudonyms, the wallets store the history of every transaction in the form of continuously updated blockchain information," explains Mukerjee. In an email communique, the Reserve Bank of India told TOI: "RBI is currently not regulating Bitcoins but is closely watching the developments."

Many initial holders of Bitcoins, either mined these coins or received it as fees from overseas clients. Mukerjee exchanged his stash of Linden dollars (the game currency for virtual world-Secondlife) for Bitcoins. With their value on the rise, he has recently set up an account with MtGox, a leading Bitcoin exchange. "For this I had to provide the full know-your-customer, including my passport details for identity check. When I sell my Bitcoins via this exchange, the money will flow into my bank account in India. This shows that Bitcoin transactions are transparent and cannot be used for money-laundering," avers Mukerjee. Buysellbitco.in, which is an India-centric Bitcoin exchange also has in place KYC norms and further payments are settled in cheque or via national electronic funds transfer.

Yet, misuse cannot be ruled out. For instance, with limits on yearly overseas remittances, an overseas traveller can easily sell his Bitcoins in the other country against foreign currency. Or Bitcoins can be used for online purchase of prohibited drugs sold by overseas e-dealers. "The current legal framework is more apt for a brick and mortar structure and should not be applied to Bitcoins. Rather than impairing the growing momentum, regulators could monitor end-usage of Bitcoins," suggests Benson Samuel, a Bangalore-based Bitcoin developer.

Mumbai, Bangalore and Hyderabad have moved from active mining to active trading. Yet, it is only a rare retailer like CastleBloom in Chandigarh (a day spa is available for 0.05 Bitcoins)

who has realized the potential of the emerging currency. While cash transactions on sale of Bitcoins could go unreported and escape tax, largely funds are received by Bitcoin sellers into their bank accounts. Thus even if this "income" is not reported in the tax return, the tax authorities could catch up.

"A Bitcoin can at best be described as a private currency, rather than a security or a commodity. If the seller is a regular trader the income would be business income, else it would be in the nature of capital gains," says Nishith Desai, international tax expert. Authorities in Canada have issued a similar guideline. Capital gain is the difference between the sale proceeds minus the cost of acquisition. Courts have held that if the cost of acquisition cannot be determined no capital gains arise.

"The Income Tax Act has carved out exceptions, holding that the cost of acquisition will be nil in cases of certain assets like goodwill or trademarks. In such cases, the entire sale proceeds attract capital gains tax levy. This exception doesn't cover Bitcoins," adds Desai. Thus in some instances, the investor could enjoy tax-free income. But for those who have mined Bitcoins, even if the cost cannot be easily determined, it is likely that income on sale will be treated by the authorities as taxable business income.

