Heavy taxes are fine for quasi-assets like crypto

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The government seems ready to expand the ambit of India's goods and services tax (GST) to cryptocurrency transactions. Reports suggest it may slap crypto-token purchases with GST, just like on any other product, as it hopes to draw the entire value chain into its tax net. As of now, services provided by crypto exchanges are taxed at 18%. Taxing tokens would involve their classification as either goods or services, both of which are under GST rules, and not an 'actionable claim' that would be exempt. If so classified, what rate to charge would come next. The top bracket of 28% is said to be under consideration on the argument that these are purely speculative buys, like casino chips or lottery tickets. This is not far-fetched. They began life online as tokens of exchange, but most of them ended up as stores of value and lures for capital gains, thanks to short supply and an investor frenzy. While buyers may like them treated like other securities, they typically bear no underlying claim on any issuer. They are not contracts and offer neither interest returns nor slices of profit generated by underlying businesses. This tilts them towards the casino-chip analogy.

Classifying cryptocurrencies properly would be crucial to regulating them. As their decentralized nature means they could exist in perpetuity, unless the internet goes on the blink, they clearly cannot be wished away. And since our central bank can't be deprived of its domestic monopoly on legal tender, as that would impair its monetary authority, only an officially-issued crypto can be accorded 'currency' status. While taxing crypto transfers wouldn't legalize private tokens, as taxation is legally distinct and its scope extends beyond what's lawful (swindles are taxable), the state's effort to tax them signals a welcome realism. But a top-rate GST would still deal a big blow to crypto trades, even risk pushing them off-radar. Even if these are only quasi-assets, for the sake of market activity, would a light levy like a securities transaction tax (of 1% or less) be more appropriate? After all, digital tokens have been hailed as 'e-gold' of the information age, prized for scarcity and also portrayed as an inflation hedge, especially after fiat money was supplied in bulk by central banks to help economies tide over pandemic disruptions. Crypto advocates could argue that the concept is thus a valuable response to fiat excesses and it should not suffer punitive taxes; it's all the more unfair under a crisis-supply regime that not only lends banks money at rates less than inflation, but also lets lenders repress savers with negative real payouts on deposits.

Regardless of whether issuers of fiat money have erred, they must keep control of monetary levers for macro-economic management. Moreover, unlike bonds and shares, which are tools of capital allocation, crypto coins serve no productive function. Like gold, however, they are here to stay. Profits on their sale must be held liable to capital-gains tax, as is currently the case. On Monday, the Centre clarified that crypto losses can't be offset against such gains. As for purchases, since these are essentially punts, a taxation squeeze is easy to justify. Our GST regime is much too complex for its own good, but so long as a 28% rate exists, digital coins seem like ideal candidates for it. Perhaps a stiff tax will nudge people to invest in stuff that's designed to play an active role in the expansion of our economy. Whatever the Centre’s call, it should spell out its stance at the earliest and enact a law to govern these digital creations.