7. Cryptocurrency - Economy

Cryptocurrency recognised as property, rules Madras High Court. The Madras High Court has judicially recognized cryptocurrency as "property" under Indian law, meaning it can be owned, transferred, and held in trust, even though it is not legal tender. This aligns with its existing classification as a "Virtual Digital Asset" (VDA) under the Income Tax Act, which taxes gains at 30%.

Madras High Court Ruling on Cryptocurrency

The Madras High Court has delivered a significant ruling, declaring that cryptocurrency qualifies as “property” under Indian law. The Court affirmed that cryptocurrency is an asset that can be legally -

1. Owned
2. Enjoyed
3. Transferred
4. Held in trust

Cryptocurrency

Definition - Cryptocurrency is a digital medium of exchange.

Technology - It utilizes cryptography (advanced encryption techniques) to secure and verify transactions. It also uses algorithms to regulate the supply of new units.

Infrastructure (Blockchain) - It operates on Blockchain technology.

1. This technology is a decentralized digital ledger (a shared database).
2. It records all transactions across a peer-to-peer network.
3. A key feature is that it operates without a central authority (like a bank).

Decentralized Nature - It is not issued or regulated by any single central authority, such as a government or a central bank.

Examples - Common cryptocurrencies include Bitcoin (BTC), Ethereum (ETH), and Dogecoin (DOGE).

Legal & Regulatory Context in India

Tax Classification - Under Section 2(47A) of the Income Tax Act, 1961, cryptocurrency is formally classified as a “Virtual Digital Asset (VDA)”.

Taxation on Income - Any income generated from the transfer or sale of a VDA is taxed under Section 115BBH at a flat rate of 30%.

Taxation on Transfer (TDS) - A 1% Tax Deducted at Source (TDS) is levied on all VDA transfers, as mandated by Section 194S.

RBI Stance (Legal Tender) - The Reserve Bank of India (RBI) does not recognize cryptocurrency as legal tender in India.

Court’s Recognition of Cryptocurrency as Property

The High Court's judgment was based on several key observations and legal interpretations -

Judicial Observation - The Court held that while cryptocurrency is not tangible property (like land) and not currency (like the Rupee), it is definitively property that is capable of being enjoyed and possessed beneficially and can be held in trust.

Statutory Basis - The Court's reasoning was supported by Section 2(47A) of the Income Tax Act, 1961. This section provides a clear statutory definition of cryptocurrency as a Virtual Digital Asset (VDA).

Functional Nature - The Court examined the practical use of cryptocurrencies and noted that they possess the essential characteristics of property because they can be stored, traded, and sold.

Global Perspective - The judgment referenced the legal positions of other countries, including the UK, USA, Singapore, and New Zealand. These nations also recognize cryptocurrencies as property-like assets that can be legally possessed and transferred.

Trust Principle - The Court observed that virtual digital assets held electronically (e.g., on an exchange) are meant to be held in trust. This establishes a fiduciary duty (a legal duty of care and good faith) owed by the exchanges to their users.

Section 2(47A) – Income Tax Act, 1961

This section, inserted by the Finance Act, 2022, is central to the legal definition of crypto assets in

India.
It defines a "Virtual Digital Asset (VDA)" as - Any information, code, number, or token (which is not Indian or foreign currency). That is generated through cryptographic or other means. It must provide a digital representation of value. It must be capable of being transferred, stored, or traded electronically.
Inclusions - The definition explicitly includes -

1. Non-Fungible Tokens (NFTs).
2. Any other tokens of a similar nature.
3. Any other digital asset that the Central Government may notify.

Exclusion - The Central Government also has the power, via notification, to exclude any digital asset from this definition.

Significance of the Judgement

Formal Legal Recognition - This ruling provides judicial recognition in India for cryptocurrency as a form of property, confirming it is capable of ownership, transfer, and being held in trust.
Property Definition Expanded - The judgment reinforces the legal principle that "property" is a broad concept that includes every species of valuable rights and interests that have an exchangeable value.
Clarification under Tax Law - It aligns the judicial view with the legislative one, confirming that cryptocurrency qualifies as a Virtual Digital Asset (VDA) under the Income Tax Act.
Investor Protection - The ruling affirms that crypto assets held by users deserve the same legal protection as other forms of property. This is likely to strengthen investor confidence in digital asset holdings.
Fiduciary Accountability - It sends a strong message to crypto exchanges and platforms, establishing that they owe fiduciary duties to the users whose assets they hold. This accountability remains relevant even amid foreign legal proceedings (like bankruptcies of parent companies), meaning exchanges cannot easily dismiss their responsibility.
Source - https - //www.varindia.com/news/cryptocurrency-recognised-as-property-rules-madras-high-court