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India Cracks Down on Crypto with Tougher Tax Oversight

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India is escalating its regulation of virtual digital assets through stricter tax enforcement, advanced surveillance tools, and global data-sharing partnerships. The government aims to increase transparency, close tax loopholes, and bring accountability to a sector long operating in regulatory grey zones.

In a decisive move to clamp down on tax evasion in the cryptocurrency sector, India has launched a robust oversight regime targeting Virtual Digital Assets (VDAs). Spearheaded by the Central Board of Direct Taxes (CBDT), the initiative combines artificial intelligence-driven analytics, forensic audits, and international data exchange to trace unreported transactions and holdings.

CBDT Chairman Ravi Agrawal recently stated that the department is leveraging artificial intelligence and machine-learning tools to identify discrepancies between income declarations and crypto-related activity. This tech-enhanced crackdown follows a notable uptick in digital asset investments, prompting authorities to ensure the digital economy aligns with national tax policy.

The government's efforts are already bearing fruit. Recent figures show a 62% jump in tax collections from VDAs, rising from ₹269.1 crore in the previous fiscal year to ₹437.4 crore in FY24. This increase reflects tighter enforcement measures, including the mandatory 1% Tax Deducted at Source (TDS) rule applied to crypto transactions since 2022.

To strengthen oversight further, the government is also utilizing initiatives such as the Non-Filer Monitoring System (NFMS) and Project Insight, both designed to detect unusual patterns, trace digital footprints, and cross-reference transaction histories with taxpayer records. Meanwhile, revised reporting obligations now require individuals to disclose VDA-related income under Schedule VDA in their tax returns, improving visibility and traceability.

India's regulatory push aligns with global efforts to bring digital assets under tax frameworks. The country is on track to adopt the Crypto-Asset Reporting Framework (CARF) by the Organisation for Economic Co-operation and Development (OECD), set to go into effect on April 1, 2026. This framework will mandate crypto platforms to share detailed transaction data across borders, preventing capital flight and reinforcing transparency.

Enforcement has become more aggressive as well. In a recent case, including hardware wallets and overseas accounts. Offenders could face a flat 60% tax on unreported gains, penalties up to 200%, and potential imprisonment of up to seven years.

Despite the intensity of these measures, CBDT has clarified that data access will be governed by strict legal protocols to protect individual privacy. Digital access is restricted

to investigation scenarios and will remain within judicial boundaries, even as the upcoming income tax bill is expected to formalize these provisions.

India's assertive stance on crypto regulation signals a broader commitment to structured financial governance. By embracing cutting-edge surveillance while joining global compliance standards, the country is aiming to secure its fiscal interests without stifling innovation. The message is clear: the era of unregulated digital assets is nearing its end.