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Crypto in India Remains Unregulated, But FIU Demands Registration

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India’s cryptocurrency sector continues to operate in a legal gray zone, as the government confirms that digital assets remain unregulated. However, oversight mechanisms have been introduced to address financial integrity. Minister of State for Finance Pankaj Chaudhary recently stated in Parliament that while there is no specific law regulating virtual currencies, platforms offering crypto services must comply with anti-money laundering protocols.

To that end, all Virtual Asset Service Providers (VASPs), whether Indian or foreign, must now register with the Financial Intelligence Unit of India (FIU-IND) under the Prevention of Money Laundering Act (PMLA). This mandatory registration is aimed at tracking suspicious transactions and safeguarding national interests. Non-compliant platforms are being named and flagged publicly, a move that brings some clarity to users in an otherwise ambiguous regulatory environment. Chaudhary also noted that a 1% Tax Deducted at Source (TDS) is applied to all crypto transactions, including those conducted via offshore entities, if the income is taxable in India.

Indian crypto traders, meanwhile, are grappling with a punishing tax regime. Profits from virtual asset trades are taxed at a flat 30%, with no allowances for deductions or losses. Every transaction, including unprofitable ones, incurs a 1% TDS. Additionally, Goods and Services Tax (GST) applies to trading fees, reducing profit margins even further. The inability to offset losses leaves retail investors particularly vulnerable to market volatility.

Adding to the sector's challenges are rising concerns over security and transparency. High-profile domestic exchanges have suffered severe breaches. WazirX, once India's most trusted crypto platform, experienced a staggering \$234 million exploit, and users are still awaiting full resolution. CoinDCX followed with a \$44 million hack, further shaking public confidence. Both incidents highlight the need for stronger internal controls, even as these platforms claim regulatory alignment.

Amidst the uncertainty, industry players have introduced a proactive framework to chart a way forward. The COINS Act, short for the Code of Innovation, Safeguards, and Standards, has been proposed by Web3 venture firm Hashed Emergent and public policy group Blackdot Policy. It outlines a rights-focused model law for India's crypto landscape, promoting innovation while safeguarding user privacy and ownership. Importantly, it proposes the establishment of a new oversight body, the Crypto Assets Regulatory Authority (CARA), to handle sector-specific compliance and innovation policy.

While the COINS Act is not yet law, it has been welcomed by stakeholders as a serious attempt to bring structure to the digital asset space. For now, however, crypto in India continues to be driven more by enforcement mechanisms than comprehensive regulation, leaving users and entrepreneurs navigating risk with limited legal protection.