

General Studies – 3; Topic: Science and Technology- developments and their applications and effects in everyday life

Bitcoins in India

1) Introduction

- Bitcoin is a digital currency system that enables participants to create and transfer bitcoins using a blockchain which are the rails upon which the bitcoins are created and transferred.
- Bitcoin is a peer-to-peer currency. Peer-to-peer means that no central authority issues new money or tracks transactions. These tasks are managed collectively by the network.
- Bitcoin prices in the last one year have only headed north. In the last five months since January 2017, the value of BTC has doubled in absolute value compared to the dollar.

2) Advantages

- People no longer have to rely upon the bankers who have been handling their money for generations to make a transaction. So transferring funds becomes easy.
- Fundamentally changes the financial services industry – by dropping the cost and complexity of financial transactions, making the world's unbanked a viable new market.
- Bitcoins could reduce banks' infrastructure costs by 15 – 20 billion dollars per annum by 2022.
- Bitcoin transactions cannot be reversed, do not carry with them personal information, and are secure, merchants are protected from potential losses that might occur from fraud.
- The Bitcoin software is completely open source and anybody can review the code.
- Transaction cost is very little, especially compared to other payment networks.
- Bitcoin is changing finance the same way the web changed publishing.
- Bitcoin being a digital code is infinitely more durable than paper currency, unless someone shuts down the entire internet.
- Since bitcoins are created by crypto-currency mathematical algorithm, they are much harder to counterfeit than paper currency.

3) Disadvantages

- Lack of Awareness & Understanding.
- It undermines the authority of banks and financial institutions on the financial system.
- Bitcoin prevents any government and financial institution from acting as a trusted third party to facilitate transactions.
- There is still no legal framework protecting the rights of users of these technologies or overseeing the institutions that use them.
- Bitcoin has volatility mainly due to limited amount of coins and the demand for them increases day by day.
- Bitcoins have been banned in several countries on grounds that these currencies could be used for money laundering, terror funding and drug trafficking.
- It's very much still an experimental currency and is a high-risk environment for consumers and investors at the moment.
- Problems such as losses arising out of hacking, no sources of customer recourse and the general financial volatility surrounding Bitcoins.

- Only a miniscule number of goods and service providers accept payment in Bitcoins currently. Therefore, a person cannot expect to buy his daily necessities like vegetables, milk, or pay his mobile bill, etc. in Bitcoins.
- It is virtually impossible for illiterate people to recognize a bitcoin.

4) Is Banning of Bitcoins a good idea?

- Banning will give a message that all related activities are illegal and will disincentivise those interested in taking speculative risks
- It will impede tax collection on gains made in such activities.

5) Government Response

- The government is considering the introduction of a regulatory regime for Bitcoins that would enable the levy of GST on their sale.

6) Way Forward

- In many western countries, Bitcoins are treated as property and capital gains tax is imposed on it.
- India should also treat it as property and impose capital gains tax.
- Implementing strict KYC norms and eliminating secrecy of transactions.
- Encourage the development of a supervision ecosystem (that tracks legal activities and may also assist in tracking illegal activities)
- Bring their trading under the oversight of SEBI.
- A more realistic scenario in future could be both bitcoins and fiat money are used side by side, with bitcoins used mainly to pay people or businesses who can accept bitcoins, and fiat money used to pay for basic goods and services.