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CRYPTO MARKETS UNDER PMLA

This article covers "Daily current events" and the topic is about 'Crypto markets under PMLA' which is in news, it covers "Science and Tech" In GS-3, the following content has relevance for UPSC.

For Prelims: Crypto markets under PMLA

For Mains: GS-3, Science and Tech

Why in news: The Finance Ministry stated that the exchange between virtual digital assets and fiat currencies, the exchange between one or more forms of virtual digital assets, and the transfer of virtual digital assets — will come under PMLA.

About Cryptocurrency

- A cryptocurrency is a digital currency that is generated via the use of encryption algorithms. Because of the use of encryption technology, cryptocurrencies can act as a currency and a virtual accounting system.
- When it comes to cryptocurrencies, a network of private computers always strives to validate transactions by solving complex cryptographic riddles.
- During the 2008 financial crisis, Satoshi Nakamoto proposed an accounting system that sparked the notion of blockchain.
- According to market capitalisation, Bitcoin is the largest cryptocurrency in the world, followed by Ethereum.

Legal status of Crypto in India

- Despite introducing cryptocurrency tax, the government still does not proceed with the development of legislation.
- The Reserve Bank of India recommended a cryptocurrency ban, which was overturned by a court ruling.
- In 2022, India implemented a 30% income tax on bitcoin gains, and the laws governing the 1% tax deducted at source on cryptocurrency went into force.

About Prevention of Money Laundering Act (PMLA):

- The Act, passed in 2022, empowers the government to seize property obtained illegally or through money laundering.
- The burden of proof is on the accused under the Act.
- The PMLA was enacted in response to India's international commitment to combat money laundering (Vienna Convention). These include:
 - United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances 1988
 - Basle Statement of Principles, 1989
 - Forty Recommendations of the Financial Action Task Force on Money Laundering, 1990
 - Political Declaration and Global Program of Action adopted by the United Nations General Assembly in 1990

Objectives of Prevention of Money Laundering Act (PMLA):

- To prevent money laundering.
- Combating the diversion of funds towards unlawful activity and economic crimes.
- Confiscation of property derived from money laundering.
- Providing for any other matters related to money laundering.

Actions taken by the Government:

- The government issued a notification putting crypto-asset transactions under the purview of the PMLA. It defined the types of transactions covered under PMLA. These are:
 - Exchange between virtual digital assets and fiat currencies.
 - Exchange between one or more forms of virtual digital assets.
 - Exchange of virtual digital assets.
 - Safekeeping of virtual digital assets.
 - Provision of financial services in connection with an issuer's offer.
 - The sale of a virtual digital asset.
- The measure is anticipated to help investigating agencies take action against cryptocurrency firms.

How does the industry perceive the notification:

- Concerns exist that the notification does not give organisations enough time to comply with the new rules.
- The industry is also concerned that crypto firms may end up interacting directly with enforcement authorities such as the ED.
- Under the PMLA, entities like CoinDCX are now legally compelled to do due diligence and enhanced due diligence.

Way Forward:

- If there are rules and guidelines prohibiting crypto laundering, investors will be concerned about being penalised. To make things easier, exchanges in India must monitor transactions made by investors that surpass a specific amount within a tax year and notify the tax authorities.
- To mitigate the impact of the Virtual Digital Asset (VDA) tax architecture, the government should implement a progressive tax system with varied rates for short- and long-term gains, in accordance with worldwide best practises.

Sources: The Hindu, Livemint, www.incb.org

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