

Closing India's crypto blind spot

RIGHT MOVE. Automatic exchange of crypto-asset info will strengthen tax enforcement, anti-money laundering oversight



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The Global Forum on Transparency and Exchange of Information for Tax Purposes recently convened in New Delhi for its 18th Plenary. Delegates from over 120 jurisdictions confronted a widening fracture in the international tax architecture: finance has digitised far faster than the reporting frameworks designed to monitor it. The Plenary reaffirmed a broad multilateral consensus around the Crypto-Asset Reporting Framework (CARF), an OECD-led architecture intended to bring crypto-assets within the perimeter of automatic exchange of information.

For India, this consensus marks a critical inflection point. More than 50 jurisdictions have committed to implementing CARF by 2027. New Delhi's inclination to align with this timeline, however, has faced quiet resistance: integrating crypto-assets into formal tax reporting risks conferring legitimacy on a volatile and speculative asset class.

This anxiety misreads the nature of regulation. The decision to adopt CARF is not an act of endorsement but of institutional self-preservation. Surveillance is not legitimisation; it is the extension of the State's supervisory reach into a domain that has, for too long, operated beyond its line of sight.

To appreciate why CARF is necessary, one must first recognise the limits of the existing architecture. The Common Reporting Standard (CRS), designed in 2014, presupposes a financial ecosystem anchored in identifiable intermediaries holding accounts on behalf of residents of reportable jurisdictions. This model works well for a bank account in Zurich or a trust in the British Virgin Islands, not for a Ledger Nano X sitting in a drawer in Mumbai.

CRS relies on custodial relationships. Crypto-assets, by contrast, often move through decentralised systems where no central custodian exists. Under the current regime, a transfer from a custodial exchange to a self-hosted wallet frequently marks the end of the reporting trail. From the perspective of the tax authority, the asset effectively vanishes. Monitoring crypto through CRS is akin to policing an empty building while economic activity migrates elsewhere.

CARF is designed to address this structural mismatch. Unlike CRS, which focuses on account balances, CARF is event-driven. It requires Reporting



LESS CONTROL. Crypto-assets often move through decentralised systems where no central custodian exists GETTY IMAGES

Crypto-Asset Service Providers (RCASPs) to capture and exchange transaction-level data across four categories: exchanges between crypto-assets and fiat currency; exchanges among crypto-assets; transfers of crypto-assets; and crypto-based retail payment transactions. The shift is subtle but consequential: the object of regulation is no longer the account, but the transaction.

CARF also reconfigures the nexus for reporting. Instead of relying exclusively on physical presence or place of management, reporting obligations are anchored to the jurisdiction of the user and the provision of services to residents of that jurisdiction. An exchange that services Indian users may therefore fall within India's reporting perimeter, regardless of where its servers or headquarters are located. This architecture enables automatic, standardised information exchange among tax authorities, reducing dependence on slow and fragmented bilateral requests that are ill-suited to high-velocity digital markets.

The absence of CARF has implications well beyond tax administration. It also weakens India's anti-money laundering architecture. The Financial Intelligence Unit-India has taken important steps by requiring Virtual Digital Asset service providers to

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register as reporting entities under the Prevention of Money Laundering Act. Yet without international interoperability, these measures remain domestically bounded in a borderless market.

Illicit actors exploit this mismatch, moving value across chains, platforms, and jurisdictions to evade siloed oversight. While blockchain analytics can offer partial insights, domestic registration alone cannot reliably reconstruct complex cross-border transaction paths. CARF does not eliminate opacity, but it materially reduces it by standardising data collection and exchange across jurisdictions.

UNHOSTED WALLETS

One of CARF's most consequential features, particularly from India's perspective, is its treatment of unhosted wallets. These wallets, controlled directly by individuals without intermediaries, function in many respects as the cash of the digital economy. Under existing frameworks, high-value peer-to-peer transfers involving such wallets can occur with little or no reporting. CARF narrows this blind spot. It requires RCASPs, when facilitating transfers to or from unhosted wallets, to collect and report identifying information about the counterparty to the extent reasonably available. Perfect attribution is not guaranteed, but the expansion of visibility is substantial.

This distinction between regulation and approval is not novel. The State routinely regulates activities it does not morally endorse: from tobacco and alcohol to gambling and complex financial derivatives, not to validate them, but to impose discipline, secure revenue, and mitigate harm. Major

jurisdictions have applied the same unsentimental logic to crypto-assets. The US, for instance, has mandated transaction-level reporting for digital assets without expressing any view on their underlying merits. Regulation here is treated as a tool of visibility, not validation.

India, meanwhile, relies heavily on domestic tax instruments. These measures are effective in taxing outcomes but offer limited insight into transactional mechanics. It taxes the profit, but misses the trail. The 1 per cent Tax Deducted at Source on transfers of Virtual Digital Assets, applicable above a threshold, and rising to 20 per cent in the absence of a PAN, was introduced precisely to create a transaction trail where none existed. The regime is admittedly crude, but it performs a vital signalling and capture function in an otherwise opaque ecosystem.

RETAIN DOMESTIC INSTRUMENT

Some argue that CARF's implementation should logically trigger the removal of the 1 per cent TDS, since international reporting would render domestic tracking redundant. While economically attractive, this argument is premature. It asks the State to replace a tested domestic mechanism with an international framework whose real-world capture rate, particularly for high-frequency, intra-jurisdictional, and peer-to-peer transfers, remains unproven. For the TDS to be dismantled, there must be credible evidence that CARF delivers equivalent or superior visibility. Until such equivalence is empirically demonstrated, retaining the domestic instrument is a matter of prudence, not inertia.

Absent CARF, Indian law mandates reporting but lacks reciprocal information pipelines. Without CARF's nexus rules, the tax authority sees only what the taxpayer chooses to declare. A trader in Mumbai can use a Dubai-based exchange to move value to a wallet in the Cayman Islands. Without automatic exchange, this transaction is effectively invisible.

The choice before the State is not between regulating crypto and rejecting it. It is between visibility and blindness. CARF is not a concession to crypto-assets; it is a reclamation of the State's capacity to see. In a financial system where value moves at the speed of code, the absence of reporting is not neutrality; it is abdication. Watching crypto is not legitimising it. It is the minimum condition for governing a modern financial system.