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# HOW ARE CRYPTO AIRDROPS TAXED?



Swipe



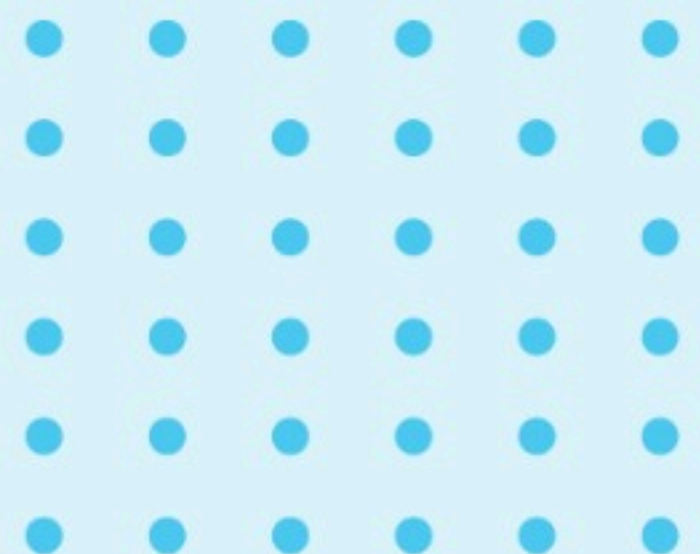
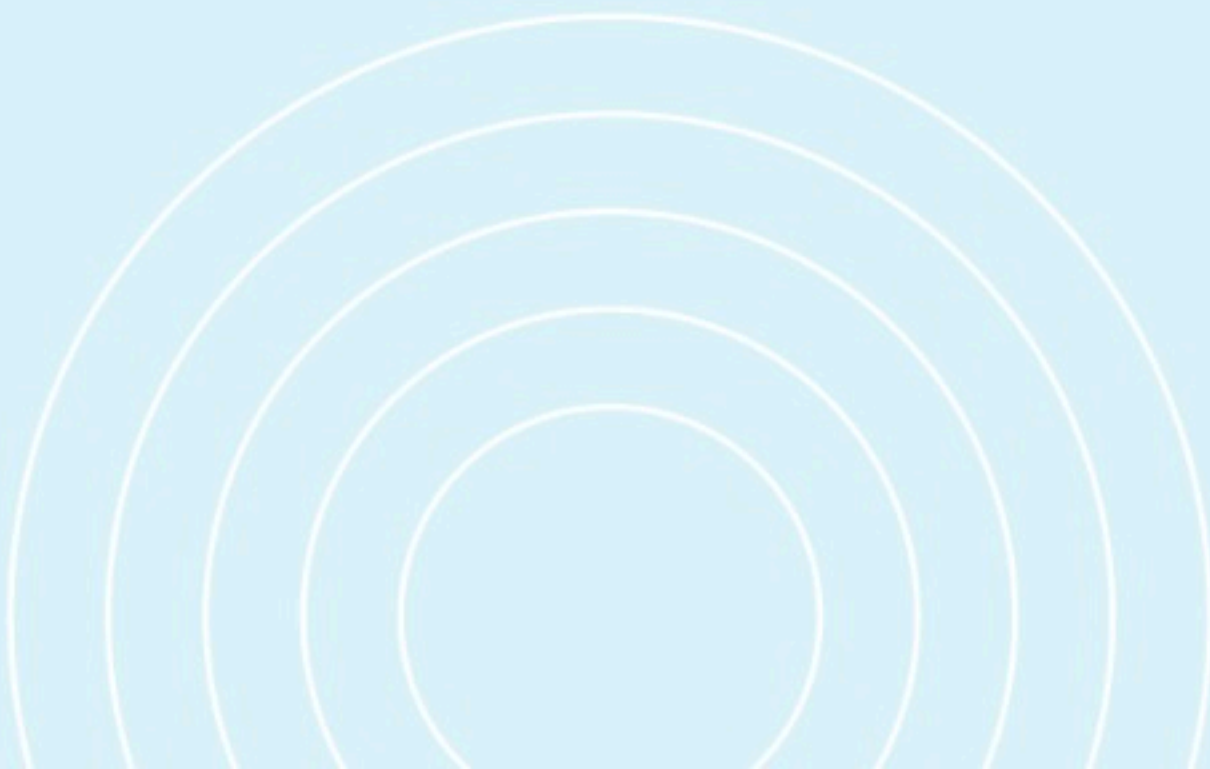
# WHAT ARE AIRDROPS?



Airdrops are a marketing strategy where **new crypto** are given/ airdropped to people in their digital wallets **free of cost**.

It is just like a newly launched product offered for free by FMCG companies to lure customers.

The objective of airdrops is to **raise awareness** about the newly launched cryptos, **attract investors** and **gain a wider network** of crypto users.





# HOW ARE AIRDROPS TAXED?

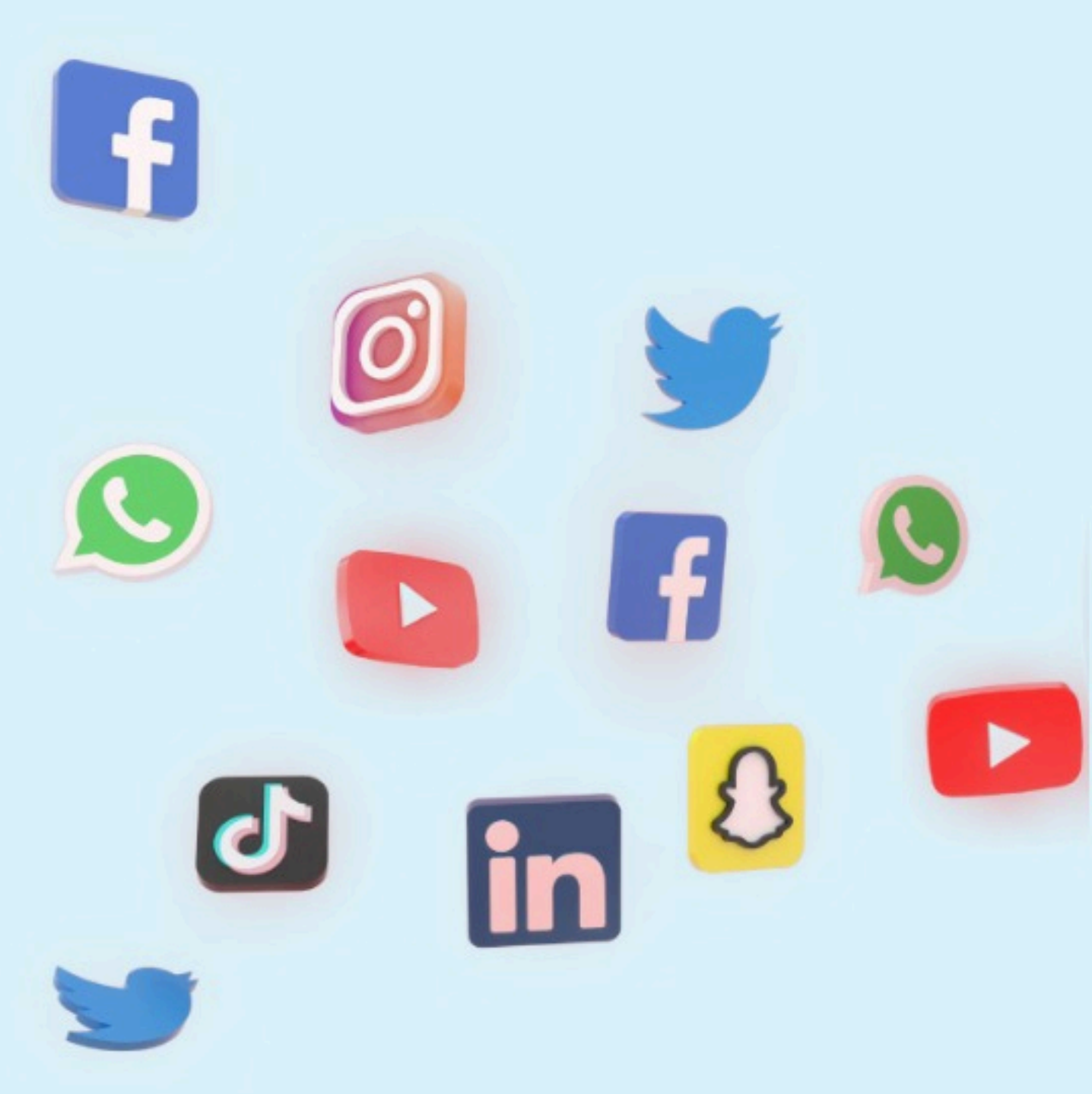


## VAT

We have discussed in our previous post on 'Classifying Cryptos for Tax' that cryptos are akin to a fiat currency under VAT.

### For Company giving free cryptos (airdrops)

There may not be any tax impact when a Company is giving cryptos for free, as it would be treated as a **transaction in money** and outside the scope of VAT.







## For Crypto recipient

For any transaction to be taxable under VAT, there has to be a supply. Since the crypto recipient is **not providing any taxable supply** in exchange for the airdropped cryptos, it may be **outside the scope of VAT**.

The VAT treatment could differ where the crypto recipient provides any service (say posting on social media platforms as marketing support) in exchange for airdropped cryptos. This may be treated as if the crypto recipient is providing **taxable service** (marketing support).







# INCOME TAX

Although airdrops may be free cryptos, this may be considered as **income** in the hands of those who are either regularly dealing in cryptos or have provided service to earn airdrops.







In the **absence of a business or provision of service**, airdrops may be considered as outside the ambit of income tax.

There is also a possibility to consider receipt of airdropped cryptos as **winnings/lotteries** and not consider these as taxable income.

Subsequent disposals of airdropped cryptos may be considered as **disposal of an asset**, potentially giving rise to a capital gains tax.





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