

TAXING CRYPTO WALLETS



Swipe



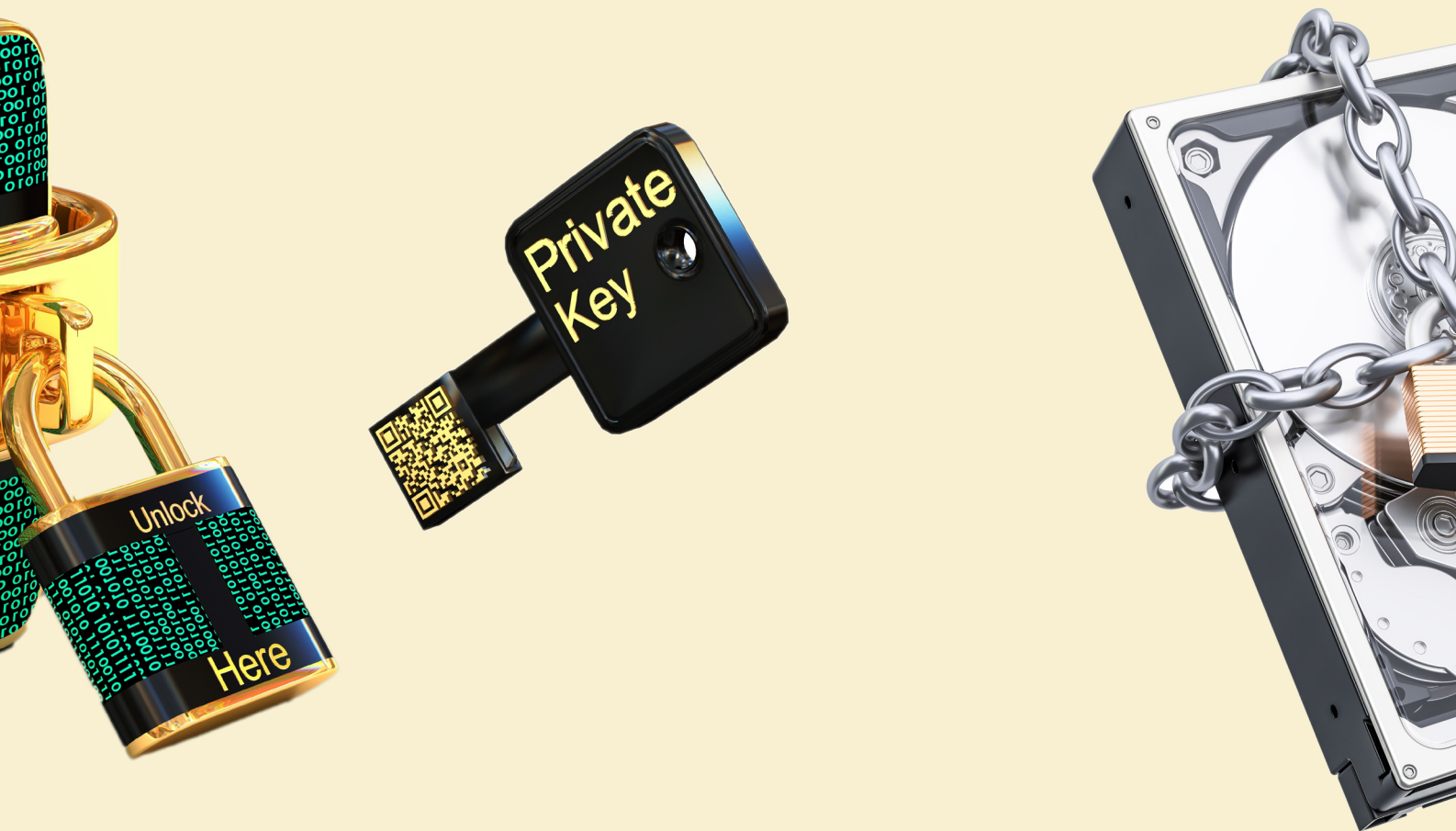
WHAT IS A CRYPTO WALLET?



A crypto wallet is a secured way to **digitally access** your cryptos or digital tokens.

Though technically it is called a wallet, in practice a crypto wallet does not store crypto or digital tokens. The cryptos are always on the blockchain, but to access them you need keys (or passwords) which are stored in the crypto wallets.

Once the **encrypted password or key** is provided, one can buy or dispose cryptos.

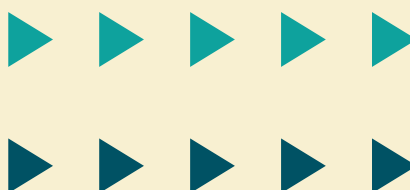
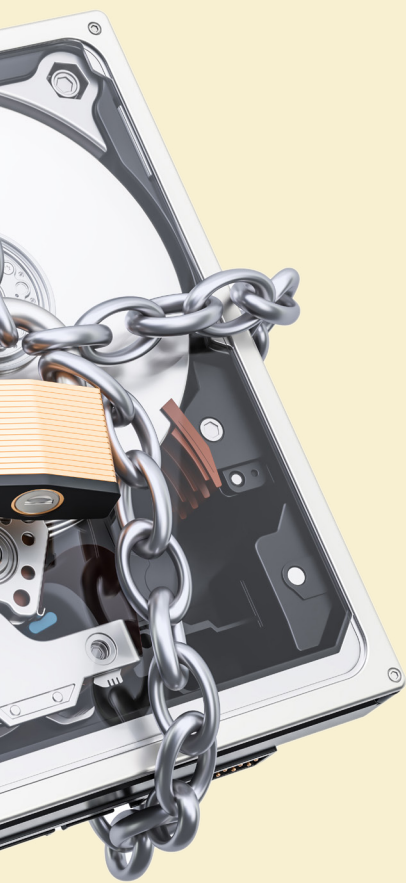




Various crypto wallets are available in the form of software (online wallets) and hardware (offline wallets).

The **software or the online wallets** allow users to store their private keys on the apps which are protected using encryption.

The hardware or the offline wallets typically come in the form of USB or a hard disk which is kept physically in a safe place.



SERVICES PROVIDED BY DIGITAL WALLET PROVIDERS



- Buy or sell cryptos
- Store cryptos
- Manage cryptos
- Exchange for fiat currencies





FOR CRYPTO WALLET SERVICE PROVIDER

VAT impact would be determined whether the services are provided for a fee or without any charges.

If fee is charged, taxability would be determined as per country-specific VAT laws. It may be treated as **exempt** being the transaction directly concerning currency, or **taxable** since services are provided for an explicit fee.

No obligation to charge VAT may arise where services are provided free of charge.

**WALLET SERVICE PROVIDERS SHOULD
EVALUATE THE IMPLICATION OF ELECTRONIC
FINANCIAL SERVICES AND PLACE OF SUPPLY**

VAT



FOR CRYPTO HOLDER

As holding crypto or digital tokens in a wallet **does not involve any supply**, there may not be any VAT impact on the person holding cryptos.



INCOME TAX



Like VAT, the income tax impact may arise on the wallet service provider only when there is a **fee** charged.

The fee charged may be considered as part of its **taxable business income**.



IS THERE ANY TAX ON MOVING CRYPTO FROM ONE WALLET TO ANOTHER?



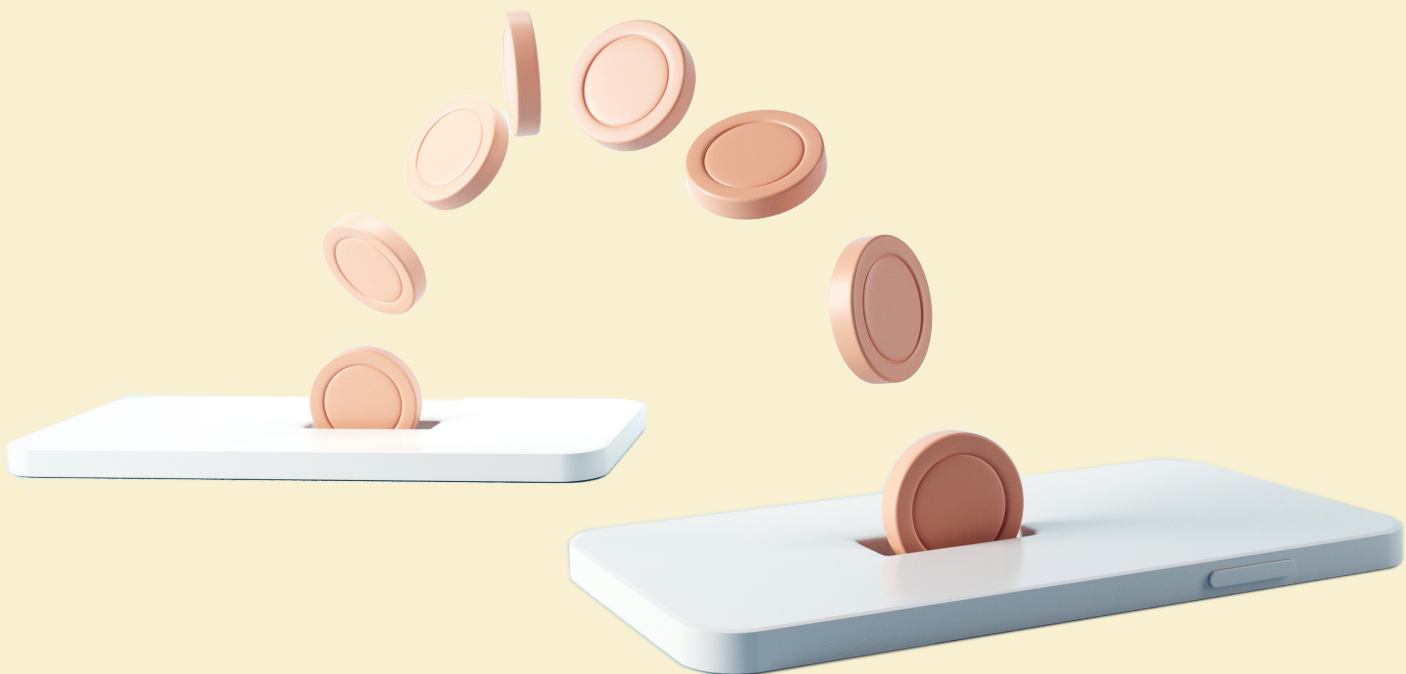
For crypto wallet service provider

Generally, when closing a wallet, service provider does not charge any fee. If fee is charged, then tax implication discussed earlier may apply.

For crypto holder

Movement of crypto from one wallet to another should not be taxed on the basis that there is no disposal of assets.

The assets merely move their destination but continue to be in the ownership of the person transferring them from one wallet to another.



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