

Impact of Taxation on Virtual Digital Assets in India

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Offshore Migration, the P2P Evasion Channel, and the Case
for Recalibrating India's VDA Tax Framework

SECOND EDITION

TIOL Knowledge Foundation

Foreword

The taxation of virtual digital assets is a Gordian knot, staring tax jurisdictions across the continents. However, policy footprint is slowly emerging in some corners. India took an early position on it in 2022. Four years on, it seemed worth examining how that position has played out in practice - and that is the exercise the TIOL Knowledge Foundation undertook for the first time last year.

That first edition, published in November 2025, tried to answer a straightforward question with the data then available: how much of India's crypto trading activity had shifted to offshore platforms, and what was the resulting costs to the exchequer. It was, by necessity, a first approximation. This second edition revisits the same question with a considerably stronger foundation - a larger dataset gathered over a longer period, estimates triangulated across several independent sources rather than one, and website traffic analysis introduced as a supporting check. We believe the findings this time rest on firmer ground.

What emerges is a market that continues to expand while the share of it visible to Indian tax authorities continues to shrivel. Offshore volumes have spiked sharply over the past year rather than levelling off, and the uncollected TDS and estimated revenue loss have grown concomitantly. This edition also widens the canvas to look at how other major jurisdictions have approached the same challenge. Several have revised their frameworks over the last 12 months; India's rates and structure have stayed where they were! The report examines what that divergence looks like on the ground, and models what a recalibrated framework might reasonably be expected to deliver.

Our purpose is to put reliable data before those shaping policy matrix in this space - for policymakers, administrators, industry and researchers to draw on, question and build upon. Our thanks go to everyone who contributed filtered data, analysis and time to this edition, and we hope it proves useful to those working through these questions in the year ahead.

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Executive Summary

India's tax rules for Virtual Digital Assets (VDA) have reshaped the market - but not in the way policymakers intended. Domestically registered exchanges, fully compliant with India's tax and AML/CFT rules, now handle just **5.4%** of Indian crypto trading volume. The remaining **95%** - approximately **Rs. 9,00,100 crore** in FY 2025–26 - facilitated through offshore platforms beyond the reach of Indian tax authorities, and peer-to-peer trading has become the primary channel through which this shift happens. Since Section 194S (New: Section 393) came into force in July 2022, uncollected TDS stands at approximately **Rs. 19,049 crore** and loss to the exchequer is estimated at approximately **Rs. 57,147 crore** - both figures are rising each year, not stabilising.

Our analysis in this report show the migration accelerating through 2025 and 2026, and the October 2025 blocking of 25 offshore exchanges by FIU-IND did not reverse it - displaced users through effected offshore exchanges moved to alternative FIU-IND registered offshore exchanges facilitating peer-to-peer channels rather than back to domestic / tax compliant platforms.

This report sets out why the shift persists, and what would reverse it. Drawing on our analysis and a comparison of India's framework against fifteen other major crypto jurisdictions, we find that India's tax architecture - not just its tax rate - is the outlier: no comparable market pairs a transaction-level withholding tax with a flat, loss-blind capital gains rate. Our forecasting shows that, left unchanged, offshore volumes will grow to **Rs. 15.27 lakh crore** by FY 2030–31. Further, our scenario modelling shows the alternative: a lower TDS rate (0.01% - close to zero), a clearer rule on offshore exchange obligation of deduction of TDS on peer-to-peer transactions, and the availability to offset losses could together recover up to **Rs. 1,80,814 crore** cumulatively in capital gains tax over five years - more than three times what the current framework is on track to collect. The path forward is not more enforcement against a shrinking base but a framework that brings Indian crypto volume back onshore, better tax compliance and revenue to the exchequer, a much larger one.

Key Findings and Recommendations

Key Findings

1. The structural imbalance has widened to a point where domestic exchanges now facilitate barely 5.4% of India's crypto trading volume. Compliant platforms handled an estimated **Rs. 51,446 crore** in FY 2025–26, while offshore exchanges, who do not have a registered entity in India thus, - beyond the reach of Indian tax authorities - accounted for the remaining **~95% (Rs. 9,00,100 crore) of India's crypto volume**. The 2025 edition estimated offshore trading of ~Rs. 4.88 lakh crore for the twelve months to October 2025; the latest figure represents a near-doubling within a single period, and the migration has accelerated rather than plateaued.
2. **The Parliamentary Winter Session disclosure confirms the scale of the shortfall.** In response to a starred question, the Ministry of Finance placed on record that total TDS collected under the VDA framework stood at Rs. 221.27 crore in FY 2022–23, Rs. 362.70 crore in FY 2023–24, and Rs. 511.83 crore in FY 2024–25 - a cumulative **Rs. 1,095.80 crore** across three financial years¹. Maharashtra (Rs. 293.40 crore), Karnataka (Rs. 133.94 crore), Gujarat (Rs. 28.63 crore), Delhi (Rs. 28.33 crore) and Rajasthan (Rs. 15.48 crore) together accounted for over 97% of FY 2024–25 collections, reflecting the narrow, base of compliant activity.
3. **Set against these actual collections, the scale of leakage is now quantifiable and stark.** Uncollected TDS from offshore non-compliant exchanges for FY 2025–26 alone is estimated at approximately **Rs. 9,001 crore** - roughly 17.6 times the entire FY 2024–25 domestic TDS collection reported in the Parliament. Cumulatively, uncollected TDS since Section 194S/393 came into force in July 2022 stands at an estimated (upto June 2026) **Rs. 19,049 crore**, of which Rs. 8,172 crore has accrued in the last nine months since October 2025 alone - a period accounting for close to 43% of total uncollected TDS despite covering under a year of the roughly four-year span since the tax regime began.
4. **When capital gains tax is factored in, the cumulative loss to the exchequer to date stands at approximately Rs. 57,147 crore.** Grossing the Rs. 19,049 crore cumulative TDS shortfall up at the statutory 1% rate implies unreported turnover of Rs. 19,04,900 crore; applying a conservative 10% profitability assumption and the 30% VDA capital gains rate to this base yields the Rs. 57,147 crore figure. This confirms the compliance gap is not a one-year phenomenon but a compounding shortfall that has widened since the tax regime began.
5. **P2P has emerged as the primary evasion channel.** The leading offshore platform's Indian unique visitors grew 73% between July 2025 and April 2026, with purchase conversion

¹ Kumar, P. M., Reddy, M. S., Government of India, Ministry of Finance, Department of Revenue, & Chaudhary, P. (2025, December 8). Taxation of Crypto-Currency in the country. Lok Sabha. Retrieved August 29, 2026, from https://sansad.in/getFile/lsapps/loksabhaquestions/annex/186/AU1194_U0Gywe.pdf?source=lsapps

accelerating 3.6x over the same period. INR P2P volumes climbed 29% from April 2025 to June 2026, while all other fiat corridors combined declined 46% - no other corridor / country / region shows this sustained India-specific growth, confirming that the spike is driven by tax-avoidance incentives rather than global P2P trends. (Section 4 examines this in detail.)

6. **The 1% TDS rate itself has become the friction driving the arbitrage.** The current rate sits above the threshold at which compliance becomes the path of least resistance. The October 2025 blocking of 25 offshore exchanges by FIU-IND is instructive: rather than returning to compliant domestic platforms, a significant share of displaced users migrated to P2P channels facilitated by FIU-IND registered non-tax compliant offshore platforms- choosing to remain outside the TDS net rather than absorb the 1% cost. A reduction to 0.01% TDS rate, a level that preserves the tracking function without creating a material cost differential between compliant and non-compliant channels would materially improve voluntary compliance, user migration to tax compliant exchange and expand the taxable base.
7. **The interpretive gap in Section 393 is the root cause of offshore non-compliance.** Offshore platforms (including those registered with FIU-IND, facilitating P2P - INR transactions) rely on two arguments to justify TDS non-deduction: that they are not registered entities in India, and that their peer-to-peer transaction model means no INR consideration passes through the exchange itself. Closing this ambiguity - by expressly extending the TDS obligation to any person or platform, resident or non-resident, facilitating a VDA transaction involving an Indian resident through amendment to Circular 13 & 14 and addition of an explanation to section 393 - is the single most consequential legislative fix available.
8. **Corporate law reform offers a complementary lever that has been missing from earlier discussions.** The Corporate Laws (Amendment) Bill, 2026 presents an opportunity to insert a new Section 379A in the Companies Act, 2013, requiring any foreign entity that targets Indian users or systematically derives economic value from India through a digital platform to mandatorily either incorporate a subsidiary or register as a foreign company. Once registered, such entities would become statutorily bound by all applicable laws of the nation including Indian tax laws, viz., TDS under Section 393, GST, and any applicable Significant Economic Presence framework. This approach is consistent with emerging G20 practice - Australia's Corporations Amendment (Digital Assets Framework) Act 2026, MiCA (EU) and VARA (Dubai) all require foreign VDA service providers to mandatorily establish a local legal presence.
9. **FIU-IND enforcement, in isolation, has proven insufficient.** Over 45 offshore exchanges - including some big offshore crypto exchanges - continue to service Indian customers without FIU registration, operating through P2P trading and VPN-friendly interfaces that bypass both FIU regulations and the Tax net simultaneously. The October 2025 blocking of 25 non-compliant exchanges showed limited effectiveness: aggregate offshore volume

continued to grow as users migrated to other unblocked, FIU-IND registered offshore platforms facilitating P2P channels without TDS deductions. Enforcement must be re-engineered around banking channel interdiction and app store delisting rather than URL blocks alone.

10. **The CBDT's CARF notification of 5 March 2026 is a welcome step, but its effectiveness is contingent on domestic registration of offshore platforms.** The majority of offshore exchanges active in India are incorporated outside CARF–OECD signatory jurisdictions, and the framework does not explicitly clarify its applicability to offshore entities with respect to Indian domicile users. Unless these exchanges are brought within the reporting perimeter - either through Section 379A registration or through express extension of CARF and SFT obligations - the framework's objective of closing the data gap will remain substantially defeated.

Recommendations

1. **Insert an Explanation under Section 393(1), Sl. No. 8(vi) [S. 194S],** on the lines of the Explanation to Section 194-O(1), to close the P2P loophole offshore platforms rely on. Offshore platforms structure transactions as P2P — matching buyer and seller while INR flows directly between two Indians over Indian banking rails — and argue that since they never handle the funds, they are not the "person responsible for paying" under Section 194S, citing Circular No. 14/2022 in support completely shifting exchange obligation of TDS deduction to individual Indian users (buyers) in this case. Section 194-O(1) already resolves this for e-commerce, deeming any payment made directly to a seller but facilitated by an operator to be paid by the operator itself, regardless of fund flow. The same deeming fiction should extend to VDA exchanges, brokers, and similar intermediaries, closing the interpretive gap offshore platforms currently rely on to justify non-deduction.
2. **Reduce the TDS rate under Section 393 of the Income Tax Act, 2025** to 0.01% rate that preserves the tracking function without creating a material cost differential between compliant and non-compliant channels - thereby expanding the compliant tax base. The revenue impact of a lower rate applied to a substantially larger compliant base is likely to exceed the revenue generated by the current rate applied to a shrinking domestic market.
3. **Introduce Section 379A in the Companies Act, 2013** through the Corporate Laws (Amendment) Bill, 2026, requiring offshore digital platforms targeting Indian users to mandatorily register domestically and accept all consequent tax obligations, including under Section 393, GST, and any applicable Significant Economic Presence framework.
4. **Strengthen FIU-IND enforcement** by making registration and a physical place of business in India a precondition for lawfully servicing Indian users. Banks, payment

aggregators and UPI service providers should be directed to block INR flows to unregistered VDA service providers, and FIU-IND should be empowered to direct app stores to delist non-compliant exchange applications.

5. **Extend CARF and SFT obligations expressly** to all platforms servicing Indian domicile users, regardless of the platform's country of incorporation. Bringing VDA exchanges - onshore and offshore alike - within the ambit of Statement of Financial Transaction reporting under the Income Tax Act would provide tax authorities with an independent, transaction-level data trail against which TDS compliance and CARF disclosures can be cross-verified.
6. Allow **set-off and carry-forward of losses** on VDA transactions, consistent with treatment available for other asset classes.
7. **Reduce the flat 30% capital gains tax rate** on VDA transfers to a level consistent with other comparable asset classes, so that the tax treatment does not by itself push users and volume toward offshore, non-compliant platforms.

Section 1 - India's Role in Crypto's Scale and Growth

The evidence base has strengthened materially since the last edition of this report, and every major update points in the same direction: Indian participation in crypto continues to grow, but the mode through which it is being sustained is increasingly offshore via peer-to-peer.

1.1 Global adoption rankings

Chainalysis's 2025 Geography of Cryptocurrency Report, released in final form in December 2025, ranked India first globally for the third consecutive year, with the country topping all four sub-indices measured: on-chain value received by centralised services, retail-sized transactions, DeFi protocol activity, and institutional transfers. India's on-chain volume for the July 2024 - June 2025 window was placed at approximately US\$338 billion, and APAC emerged as the fastest-growing region globally, with on-chain activity up 69% year-over-year, driven principally by India, Vietnam and Pakistan².

The caveat from our last edition still applies: Chainalysis's headline is a PPP-adjusted rank, not an absolute one, and India's ~US\$338 billion sits well below the multi-trillion-dollar flows recorded in North America and Europe. What India unambiguously leads is APAC, ahead of Japan and Australia.

TRM Labs' Q1 2026 Global Crypto Adoption Index, published in April 2026, offered the most consequential update of the period. On absolute (non-PPP-adjusted) numbers, TRM placed India fourth globally at US\$46 billion in retail transaction volume, behind the US, South Korea and Russia. More importantly, TRM flagged India as the most resilient major market, declining just 6% year-over-year against a 20% global average – **sustained by P2P activity and domestic exchange growth**³.

Arriving independently, this finding corroborates the central argument of this report: adoption has held up through a global contraction, but the resilience is being carried by peer-to-peer channels rather than by compliant, TDS-remitting domestic / compliant exchanges.

1.2 The FATF findings

The most direct validation, however, has come from the standard-setting bodies (SSBs). In March 2026, the Financial Action Task Force (FATF) published two targeted reports that speak

² Chainalysis. (2026, May 12). The 2025 Geography of Cryptocurrency Report - Chainalysis. Retrieved August 28, 2026, from <https://www.chainalysis.com/reports/2025-geo-crypto-report/>

³ TRM Labs. (2026, April 23). Q1 2026 Global Crypto Adoption Index. TRM Labs. Retrieved August 28, 2026, from <https://www.trmlabs.com/resources/blog/q1-2026-global-crypto-adoption-index>

directly to India's situation. The report titled "Understanding and Mitigating the Risks of Offshore VASPs"⁴ cites India twice. It includes an Indian case-study on regulatory arbitrage records that after India introduced the VDA tax regime and 1% TDS in 2022, a significant proportion of trading traffic moved from Indian onshore VASPs to offshore unregistered VASPs, with a number of Indian clients moving to platforms outside India's AML/CFT rules; the report adds that these offshore entities turn their lower compliance costs into aggressive, lower-KYC pricing to draw users across.

A separate case study on Offshore VASPs (oVASPs) in India, describes how these platforms onboard Indian customers with little or no KYC, accept deposits through UPI and card networks, and route withdrawals to Indian bank accounts through locally registered intermediaries – despite having no compliance footprint themselves. The report also documents India's own countermeasures: FIU-IND's use of the Sahyog portal to route takedown notices to intermediaries (85 URLs taken down as of the report), and a Virtual Asset Lab under development for automated detection of unregistered platforms.

The second report, the Targeted Report on Stablecoins and Unhosted Wallets⁵, adds a related finding rather than a duplicate one: citing Chainalysis data, it notes that stablecoins accounted for 84% of the USD 154 billion in illicit virtual asset volume recorded in 2025, most of it moving through P2P transfers via unhosted wallets that sit outside any AML/CFT-obliged intermediary. FATF is candid about the limits of its own visibility here – it states plainly that it has not been able to produce a definitive estimate of P2P market size because of gaps and inconsistencies in the data jurisdictions and industry are able to provide. That gap is precisely what this report's own P2P scraping exercise, set out in Section 3, is built to narrow for the Indian market.

Read together, the two reports and the TRM findings above point in the same direction: India's adoption numbers look strong, but a growing share of that activity sits with offshore, unregistered venues rather than the domestic exchanges operating inside India's tax and AML/CFT perimeter.

⁴ Understanding and Mitigating the Risks of Offshore Virtual Asset Service Providers (oVASPs). (n.d.). Retrieved August 28, 2026, from <https://www.fatf-gafi.org/en/publications/Virtualassets/Understanding-Mitigating-Risks-Offshore-VASPs.html>

⁵ Targeted report on Stablecoins and Unhosted Wallets - Peer-to-Peer Transactions. (n.d.). Retrieved August 28, 2026, from <https://www.fatf-gafi.org/en/publications/Virtualassets/targeted-report-stablecoins-unhosted-wallets.html>

Section 2 - The Global Crypto Tax Landscape in 2026

There is ample evidence from around the world that clearly establishes the value of clear rules and simplified compliance in regulating the VDA sector. Earlier editions of this report have also made this point by reviewing literature from jurisdictions such as the United States, the United Kingdom, Hong Kong, Brazil, Indonesia and Singapore.

This edition takes a wider lens and reads the crypto-tax debate through the frame of what is actually being enacted, consulted on or exchanged between tax authorities in G20 and other significant crypto markets today. Where the earlier edition asked whether high tax rates crowd activity offshore, this section asks a different question: as global reporting rails come online, how are the world's largest economies positioning their crypto tax frameworks - and where does India sit in that emerging map?

The comparison matters for the argument this report makes. If India's offshore migration were simply a function of crypto taxation being burdensome everywhere, the case for reform would be weaker – every jurisdiction would show the same leakage. What the cross-country evidence in this section shows instead is that India's architecture, not just its tax rate, is the outlier, and that the rest of the world is converging on a materially different design.

2.1 What has changed since the last edition

Four themes cut across the 2025–26 cycle, and each has a direct read-across for how India's regime now looks alongside its peers.

Reporting is now law, not just a plan. The Crypto-Asset Reporting Framework (CARF) has moved from principle to statute across most major markets. Germany's draft DAC8 bill, the UK's final CARF legislation, Japan's amended reporting law, Korea's LCITA amendments and Canada's draft Part XXI are all pinned to a 1 January 2026 effective date. The US has finalised broker-reporting rules for 2025 transactions and flagged CARF-implementing regulations for 2028, while Hong Kong, Singapore and the UAE have each made public CARF commitments in the last twelve months, with first information exchanges due in 2027 or 2028. The information gap between tax authorities and offshore platforms – the enforcement problem this report's last edition identified - is now being closed at the international level rather than country by country.

On classification, India is the outlier. Most large jurisdictions have converged on a common approach: treating crypto as property, where whether a gain counts as capital or revenue depends on the facts of each case. Australia, Canada, the US, the UK and Hong Kong all follow this model. Germany and Italy apply a specific holding-period or substitute-tax rule, but even

they tax crypto through the general income-tax code rather than a separate regime built just for it. India stands apart: Section 115BBH imposes a flat rate and blocks any offset of losses, a design no major peer uses.

Tax rates are shifting, but no one else is copying India's structure. Several jurisdictions have adjusted their tax rates over the past year. Italy is raising its individual substitute tax from 26% to 33% in 2026 and has scrapped the EUR 2,000 exemption threshold. Korea has pushed back its 22% individual crypto tax to January 2027 while raising the top corporate rate to 27.5%. The UK's headline capital gains rates moved to 18%/24% for disposals from 30 October 2024, and Brazil replaced its BRL 35,000 monthly exemption with a flat 17.5% rate under MP 1,303 in June 2025. The pattern is consistent: rates move up or down, but the underlying structure stays simple. No other jurisdiction in this review has adopted India's combination of a transaction-level TDS stacked on top of a flat capital gains rate.

Enforcement is getting quieter, not louder. Rather than high-profile crackdowns, tax authorities are building enforcement into everyday compliance channels. His Majesty's Revenue and Customs (HMRC) has begun sending nudge letters to suspected crypto holders. Italy now requires foreign service providers to maintain a permanent establishment (if based in the EU) or incorporate locally (if outside it), and to register with the OAM. Turkey is weighing either a platform-level withholding tax or a special transaction tax, but is designing both only for platforms operating within Turkey, not for non-residents. The common approach: keep rates moderate, and place the reporting burden on intermediaries who are within reach of domestic law.

Table 1 sets out how each of these themes plays out jurisdiction by jurisdiction across the G20 economies and other major crypto markets covered in this section.

2.2 Direct tax treatment across G20 and major crypto jurisdictions

The comparison below covers sixteen jurisdictions: every G20 member with a material crypto-tax framework, plus four other major markets referenced in this report (Hong Kong, Singapore, Switzerland, the UAE). The table is organized to show three core dimensions for each jurisdiction - how it classifies crypto assets, what the headline tax rate is, and what relief (if any) applies to losses or holding periods - alongside the most significant tax development of 2025–26.

Table 1 - Direct tax treatment of crypto-assets across major jurisdictions

Jurisdiction	Classification & headline rate	Key 2025–26 development
Australia	Property - a CGT asset, or a revenue asset for traders and businesses. ⁶ 0 - 45% marginal rate on 50% of the gain after the discount; no separate crypto rate ⁷ .	The government has legislated a replacement for the 50% discount: an inflation-indexed cost base plus a 30% minimum tax on real gains, starting 1 July 2027. Gains built up before that date keep the old 50% treatment. Nothing changes for the current 2025 - 26 return. ⁸
Canada	A commodity for tax purposes; treated as a capital gain or business income depending on the facts ⁹ . 50% inclusion rate on capital gains, taxed at marginal rates (up to ~27% effective at the top bracket); business income is fully taxable ¹⁰ .	A proposed hike to a 66.67% inclusion rate was scrapped in March 2025, so the 50% rate stays in place. Exchanges must start collecting CARF data from 1 January 2026, though several sources suggest the first filings may not happen until 2027 ¹¹ .
Germany	Taxed under general income rules; private crypto disposals are a distinct category ¹² . Tax-free after one year ; otherwise taxed at the individual's personal income tax rate, up to about 45% ¹³ .	Germany's crypto reporting law implementing DAC8 has passed both houses of parliament and took effect from 1 January 2026. The one-year exemption is unchanged, but every disposal is now reported to the tax authority, whether it's taxable or not. ¹⁴
India	A separate VDA regime under s. 115BBH, taxed apart from ordinary capital gains. 30% flat tax on gains, plus a 1% TDS under s. 194S on transaction value.	Unreported gains can now be taxed at 60% plus penalties under the block-assessment rules, effective 1 April 2026. India has joined the CARF framework and will commence automatic crypto data exchange with global tax authorities from 1 April 2027.

⁶ What are crypto assets? (n.d.). Australian Taxation Office. Retrieved August 28, 2026, from

<https://www.ato.gov.au/individuals-and-families/investments-and-assets/crypto-asset-investments/what-are-crypto-assets>

⁷ Guide to Crypto Tax in Australia for 2026. (n.d.). Retrieved August 28, 2026, from

<https://tokentax.co/blog/guide-to-crypto-taxes-in-australia>

⁸ Australia CGT reforms 2027: 50% discount replaced by indexation. (2026, August 23). Tax Natives | International Tax Advisors Network. Retrieved August 28, 2026, from

<https://taxnatives.com/blog/australia-replaces-50-cgt-discount-with-indexation-and-30-minimum-tax/>

⁹ Tax on crypto in Canada: CRA rules explained. (n.d.). Questrade. Retrieved August 28, 2026, from

<https://www.questrade.com/learning/accounts-taxes/tax-on-crypto-canada>

¹⁰ Kamboj, A. (2026, August 7). Crypto tax rate in Canada: How it works | Solstice Law. Solstice Law. Retrieved August 28, 2026, from <https://www.cryptotaxlawyers.io/post/crypto-tax-rate-in-canada>

¹¹ Thinking, E. (2025, April 7). Cancellation of the proposed capital gains inclusion rate increase. Retrieved August 28, 2026, from <https://enrichedthinking.scotiawealthmanagement.com/2025/04/07/cancellation-of-the-proposed-capital-gains-inclusion-rate-increase/>

¹² Germany Crypto Tax Guide 2026. (n.d.). CoinTracker. Retrieved August 28, 2026, from

<https://www.cointracker.com/blog/germany-crypto-tax-guide>

¹³ Crypto Tax Guide Germany 2026. (n.d.). Koinly. Retrieved August 28, 2026, from <https://koinly.io/guides/crypto-tax-germany/>

¹⁴ Germany: Crypto-Asset Tax Transparency Act (DAC8 implementation). (2026, January 20). WTS Global. Retrieved August 28, 2026, from <https://wts-global.com/publishing-article/0120-germany-crypto-asset-tax-transparency-act-dac8-implementation~publishing-article>

Jurisdiction	Classification & headline rate	Key 2025–26 development
Italy	Treated as miscellaneous financial income; taxed under a substitute-tax regime since 2023. ¹⁵ 33% substitute tax on gains, up from 26%. Euro-backed stablecoins that meet EU rules stay at 26%. ¹⁶	The 33% rate took effect 1 January 2026. Euro stablecoins like EURC keep the older 26% rate, but dollar stablecoins such as USDT and USDC do not qualify. Exchanges now report transaction data straight to the tax authority.
Japan	Currently miscellaneous income; being moved into a regulated financial-instrument category. ¹⁷ Up to 55% today; a flat 20.3% rate is passed into law but not yet in force. ¹⁸	This is now enacted law, not a proposal - passed in stages between March and July 2026. It will only apply to specified crypto assets on FSA-registered exchanges. The start date still needs a government order and has not been set, so the 55% rate still applies for now. ¹⁹
Korea	Virtual asset gains will be taxed as 'other income' once the law takes effect. 0% today ; confirmed at 22% (20% national plus 2% local) from 1 January 2027. ²⁰	After three delays, the government confirmed on 3 August 2026 that the tax will go ahead as planned from 2027, with first returns filed in 2028. Opposition lawmakers have proposed bills to delay it further or repeal it, but these have not been passed. ²¹
Saudi Arabia	No crypto-specific rules; ordinary tax law applies. ²² 20% CIT for companies, 2.5% Zakat for Zakat-payers; no personal income tax. ²³	No change. Saudi Arabia has not opened any public consultation on crypto tax or committed to CARF as of August 2026.
South Africa	Treated as a financial instrument, not currency; capital or revenue nature decided case by case. ²⁴	SARS is collecting more data from exchanges and now asks for fuller disclosure of crypto holdings on tax returns. South Africa is still committed to

¹⁵ CMS. (2024, March 13). Crypto tax Legislation & law in Italy. CMS Law.Tax. Retrieved August 28, 2026, from <https://cms.law/en/int/expert-guides/cms-expert-guide-on-taxation-of-crypto-assets/italy>

¹⁶ Secco, M. (2026, June 25). Cryptocurrency Taxation in Italy and the Impact of MiCA: What Changes from 2026. Taxdry. Retrieved August 28, 2026, from <https://taxdry.com/en/cryptocurrency-taxation-italy-2026-mica/>

¹⁷ Japan reclassifies crypto as a financial asset, paves way for tax cuts. (n.d.). Coindesk. Retrieved August 28, 2026, from <https://www.coindesk.com/policy/2026/07/15/japan-reclassifies-crypto-as-a-financial-asset-paves-way-for-tax-cuts>

¹⁸ Japan - Individual - Significant developments. (n.d.). Retrieved August 28, 2026, from <https://taxsummaries.pwc.com/japan/individual/significant-developments>

¹⁹ Ibid

²⁰ Roy, R. (2026, August 20). South Korea confirms 22% crypto tax will cover private wallets, foreign exchanges. crypto.news. Retrieved August 28, 2026, from <https://crypto.news/south-korea-confirms-22-crypto-tax-will-cover-private-wallets-foreign-exchanges/>

²¹ CryptoNews. (2026, August 4). South Korea confirms Jan. 2027 launch for long delayed crypto tax. Crypto News. Retrieved August 28, 2026, from <https://cryptonews.net/news/legal/33244429/>

²² Saudi Arabia Cryptocurrency Tax. (n.d.). Retrieved August 28, 2026, from <https://taxatlas.io/country/saudi-arabia/crypto-tax>

²³ Vanderbilt, D. (2026, May 6). Saudi Arabia corporate tax rate 2026: 20% CIT, 2.5% Zakat. SAUDI VISION 2030 Intelligence Platform. Retrieved August 28, 2026, from <https://vision2030.ai/encyclopedia/corporate-tax-rate-saudi-arabia/>

²⁴ Refinery, M. I. (2026, July 6). SARS draft guide sets out tax implications for crypto transactions – Moonstone Information Refinery. Retrieved August 28, 2026, from <https://www.moonstone.co.za/sars-draft-guide-sets-out-tax-implications-for-crypto-transactions/>

Jurisdiction	Classification & headline rate	Key 2025–26 development
	Up to 18% effective CGT for individuals, or up to 45% marginal rate if treated as revenue.	adopting CARF, and new third-party reporting rules for exchanges are expected to follow. ²⁵
Turkey	No formal crypto tax law exists yet; gains fall outside the current income tax framework. 0% today - no crypto capital gains tax is in force. ²⁶	Draft legislation covering capital gains tax and exchange licensing is still before parliament as of mid-2026. Officials are weighing a withholding tax on domestic trades against a separate transaction tax. Turkey now falls in CARF's later group, collecting data from 2027 and exchanging it from 2028. ²⁷
United Kingdom	A separate chargeable-asset class under the CGT regime; trading treatment is rare for individuals. 18% or 24% CGT depending on income band; staking and airdrops are taxed as ordinary income. ²⁸	CARF reporting is now live, not just planned — it took effect 1 January 2026, and around 50 UK exchanges and platforms are collecting customer data, with the first reports due to HMRC by May 2027. HMRC has sent an estimated 65,000-plus letters to suspected non-compliant holders since 2024. ²⁹
United States	Digital assets are property; whether a gain is capital or ordinary depends on how it was held. ³⁰ 0–20% long-term federal CGT, or 10–37% ordinary rates if held under a year; state tax may add to this. ³¹	Congress repealed the IRS rule that would have required decentralised, non-custodial platforms to report transactions. Centralised exchanges still must report, and began issuing the new 1099-DA form for 2025 transactions this filing season. US-wide CARF rules are still being drafted, with a 2028 start expected. ³²
Hong Kong SAR	Territorial profits tax system; capital gains are not taxed. 0% on capital-nature gains; 16.5% (companies) or 15% (individuals) if trading counts as a business. ³³	No change to the timeline: Hong Kong still expects to start CARF data collection in 2027 and exchange it from 2028. In 2025 it eased rules for licensed trading platforms, including letting them share order books

²⁵ Truter, K. (2026, March 20). Crypto-Asset Reporting Framework (CARF) | South African Revenue Service. South African Revenue Service. Retrieved August 28, 2026, from

<https://www.sars.gov.za/businesses-and-employers/third-party-data/crypto-asset-reporting-framework-carf/>

²⁶ Saible, F. (2026, August 17). Turkey's 2026 crypto tax rules: Turning CASPs into tax operators. Wyden | Institutional Trading Platform for Digital Assets. Retrieved August 28, 2026, from

<https://www.wyden.io/news/turkeys-2026-crypto-tax-rules-turning-casps-into-tax-operators/>

²⁷ Ibid

²⁸ North, A. (2026, June 19). Crypto tax: nine key questions answered by the experts. TaxCalc. Retrieved August 28, 2026, from

<https://www.taxcalc.com/blog/crypto-tax-key-questions-answered-by-the-experts>

²⁹ Killer, M. (2026, July 1). CARF and CRS 2.0: preparing your first cryptoasset tax return. Grant Thornton UK. Retrieved August 28, 2026, from <https://www.grantthornton.co.uk/insights/carf-and-crs-2.0-preparing-your-first-cryptoasset-tax-return/>

³⁰ Digital assets | Internal Revenue Service. (n.d.). Retrieved August 28, 2026, from <https://www.irs.gov/filing/digital-assets>

³¹ Wimmer, F. (2026, August 20). US Crypto Tax Guide 2026. Retrieved August 28, 2026, from

<https://www.blockpit.io/tax-guides/crypto-tax-usa>

³² Congress nullifies IRS crypto reporting regulations for DeFi platforms. (n.d.). RSM US. Retrieved August 28, 2026, from

<https://rsmus.com/insights/tax-alerts/2025/congress-nullifies-irs-crypto-reporting-regulations-for-defi-platforms.html>

Jurisdiction	Classification & headline rate	Key 2025–26 development
		with overseas partners, to stay competitive as a crypto hub. ³⁴
Singapore	No general capital gains tax; ordinary income tax applies if a disposal is treated as revenue in nature. ³⁵ 0% on genuine capital gains; up to 17–22% where trading is treated as income. ³⁶	Singapore has now passed the domestic law needed to join CARF, though the timeline is unchanged - data collection from 2027 and first exchanges in 2028. The difference from before is that this is now finalised legislation rather than just a stated commitment. ³⁷
Switzerland	Private capital gains on crypto are generally tax-free unless the holder is a professional trader. 0% on private capital gains; 11.85–20.54% ordinary corporate tax, depending on canton, for businesses and professional traders. ³⁸	Switzerland's domestic CARF law is in force from 1 January 2026, but the government has twice delayed the actual cross-border data sharing. As of the latest decision, crypto reporting obligations will not apply in 2026, pushing the first real exchange of data to 2027 or later. ³⁹
United Arab Emirates	Federal Corporate Tax regime; no personal income tax or capital gains tax. 0% personal income and capital gains; 9% federal corporate tax above AED 375,000 (0% for qualifying free-zone income). ⁴⁰	No change to tax rates. The UAE signed on to CARF in July 2025 and remains in the later group, with data collection from 2027 and exchange from 2028 ⁴¹ . Crypto transactions stay exempt from VAT under a 2024 Cabinet decision, applied retroactively back to 2018. ⁴²

Loss treatment is where the divergence is sharpest, and where India's blanket denial of any offset stands out most starkly against its peers. Most jurisdictions in this comparison allow

³³ Hong Kong SAR - Individual - Other taxes. (n.d.). Retrieved August 28, 2026, from <https://taxsummaries.pwc.com/hong-kong-sar/individual/other-taxes>

³⁴ IRD : Crypto-Asset Reporting Framework. (n.d.). Retrieved August 28, 2026, from https://www.ird.gov.hk/eng/tax/dta_carf.htm

³⁵ A Comprehensive Guide: Crypto Taxes in Singapore 2026. (n.d.). Retrieved August 28, 2026, from <https://tokentax.co/blog/singapore-crypto-tax>

³⁶ Crypto tax in Singapore: IRAS Income Tax and GST Compliance - BDO. (n.d.). Retrieved August 28, 2026, from <https://www.bdo.com.sg/en-gb/services/tax/crypto-tax-in-singapore-iras-income-tax-and-gst-compliance>

³⁷ Singapore enacts Crypto-Asset Reporting Framework Regulations and Issues CARF e-Tax guide — Orbitax. (2026, August 18). Orbitax. Retrieved August 28, 2026, from <https://orbitax.com/news/country/article/Singapore-Enacts-Crypto-Asset-62837>

³⁸ CoinTracking. (2026, January 26). Crypto taxes in Switzerland – Tax guide for 2026. CoinTracking. Retrieved August 28, 2026, from <https://cointracking.info/tax-guides/switzerland/guide/>

³⁹ KPMG US. (2025, November 14). Switzerland: Postponement of review of draft law introducing cryptoasset reporting framework (CARF). KPMG. Retrieved August 28, 2026, from <https://kpmg.com/us/en/taxnewsflash/news/2025/11/tnf-switzerland-postponement-of-review-of-draft-law-introducing-cryptoasset-reporting-framework.html>

⁴⁰ Corporate tax (CT) | The Official Platform of the UAE Government. (n.d.). Retrieved August 28, 2026, from <https://u.ae/en/information-and-services/finance-and-investment/taxation/corporate-tax>

⁴¹ Crypto-Asset Reporting Framework public consultation. (n.d.). Retrieved August 28, 2026, from <https://msurvey.government.ae/survey/sharik/mvB/en/direct?mailref=0>

⁴² UAE VAT virtual asset guidance. (n.d.). Retrieved August 28, 2026, from <https://www.vatcalc.com/uae/uae-vat-virtual-asset-guidance/>

losses to offset gains within the same asset class, at minimum, and several extend that relief further: Canada and the US both permit crypto losses to reduce broader capital gains, with the US additionally allowing up to \$3,000 a year to offset ordinary income and carry forward the rest indefinitely⁴³. Japan's incoming reform goes a step further for a jurisdiction moving in this direction, introducing a three-year loss carryforward once the new 20.3% flat rate takes effect, though this is not yet in force⁴⁴. Korea's regime, by contrast, launches from 1 January 2027 with no loss carryforward at all, a gap the finance ministry has said it may revisit only after the tax is live⁴⁵. Italy sits in between: losses can only be set off against other crypto gains, not against gains from stocks or bonds. Against this backdrop, India's rule - no offset against any other income or gains, and no carry-forward at all - is the strictest of any jurisdiction reviewed here.

2.3 The CARF calendar: who reports what, and when

The most consequential change in the 2026 landscape is the near-simultaneous roll-out of the OECD's Crypto-Asset Reporting Framework - a Common Reporting Standard-style layer for crypto under which exchanges and other reporting crypto-asset service providers (RCASPs) collect user information, file it with domestic tax authorities, and those authorities exchange it under multilateral agreements. The calendar is uneven but the intent is uniform: most of the OECD core - the UK, Germany, Japan, Korea and Canada - will begin collecting information from calendar year 2026 with first exchanges in 2027, while the US, Hong Kong, Singapore and the UAE sit on a 2027–2028 timetable; Switzerland has adopted the framework but faces domestic political headwinds; and India, notably, has moved on the reporting-entity architecture in the Finance Budget 2025 but has not yet joined the CARF-MCAA. Table 2 sets out where each jurisdiction stands.

Table 2 - Status of the Crypto-Asset Reporting Framework across major jurisdictions

Jurisdiction	Status of CARF / equivalent reporting framework	Effective date	First reporting / exchange
Germany	Crypto Asset Tax Transparency Act (KStTG), implementing DAC8, passed both houses of parliament and is now in force - no longer a draft.	1 January 2026 (in force)	Calendar year 2026 data
United Kingdom	Reporting Cryptoasset Service Providers Regulations 2025 are in force. Around 50 UK exchanges and platforms are now collecting customer data.	1 January 2026 (in force)	By 31 May 2027

⁴³ Crypto Taxes: Expert Guide 2026 - USA. (n.d.). Retrieved August 28, 2026, from <https://koinly.io/guides/crypto-taxes/>

⁴⁴ Japan - Individual - Significant developments. (n.d.-b). Retrieved August 28, 2026, from <https://taxsummaries.pwc.com/japan/individual/significant-developments>

⁴⁵ South Korea Confirms Crypto Tax Starts in 2027 with 22%. (2026, July 30). TradingView. Retrieved August 28, 2026, from <https://www.tradingview.com/news/coinpedia:8384e78df094b:0-breaking-south-korea-confirms-crypto-tax-starts-in-2027-with-22/>

Jurisdiction	Status of CARF / equivalent reporting framework	Effective date	First reporting / exchange
Japan	Introduced through the 2024 tax reform; domestic RCASPs must identify user residence by 31 December 2026. Unchanged since the last edition. ⁴⁶	1 January 2026 (in force)	By 30 April 2027
Korea	CARF-MCAA signed; LCITA amendments enacted. Unchanged since the last edition. ⁴⁷	1 January 2026 (in force)	From 2026 data (rules under promulgation)
Canada	Part XXI of the Income Tax Act was expected to require data collection from 1 January 2026, but implementation has since been pushed back a year, in step with the delayed CRS 2.0 rollout. ⁴⁸	1 January 2027 (delayed from 2026)	2028 (for 2027 data)
Italy	DAC8 fully transposed; the OAM register already captures Italian client transaction data, and reporting to the tax authority is now live. ⁴⁹	1 January 2026 (in force)	Aligned with the wider EU DAC8 timeline
Switzerland	Domestic legal basis is in force, but the government has twice delayed activating actual cross-border data exchange. Crypto reporting obligations will not apply in 2026.	1 January 2027 (data collection delayed)	2028 (delayed from the earlier 2027 target)
Australia	Formally committed to CARF and CRS 2.0 in February 2026, having earlier given no indication. Legislation is expected to be introduced during 2026.	1 January 2027 (newly committed)	2028
Hong Kong	Consultation on CARF and CRS 2.0 closed in February 2026. An Amendment Bill was gazetted in May 2026 and introduced to the Legislative Council in June 2026. ⁵⁰	1 January 2027 (subject to the Bill's passage)	First exchanges in 2028
Singapore	Final CARF Regulations were gazetted on 11 August 2026. New users must self-certify tax residency from 1 January 2027; existing users have until end-2027. ⁵¹	1 January 2027	September 2028, for 2027 data

⁴⁶ Japan Adopts OECD's CARF: A New Era of Tax Transparency for Crypto Investors. (2026, January 7). Retrieved August 28, 2026, from <https://www.kucoin.com/news/articles/japan-adopts-oecd-s-carf-a-new-era-of-tax-transparency-for-crypto-investors>

⁴⁷ Kwon, O., & Kwon, O. (2026, May 14). CARF in Korea: Cross-Border crypto reporting has begun. Korea Crypto & Blockchain Law Blog. Retrieved August 28, 2026, from <https://blog.chakwon.com/2026/05/08/carf-in-korea-cross-border-crypto-reporting-has-begun/>

⁴⁸ KPMG US. (2026, August 7). Canada: Updated CRS 2.0 guidance. KPMG. Retrieved August 28, 2026, from <https://kpmg.com/us/en/taxnewsflash/news/2026/07/tnf-canada-updated-crs-2-guidance.html>

⁴⁹ Licentium. (2026, June 30). Italy implements DAC8 Crypto reporting under D.Lgs. 194/2025, first submissions due 30 June 2027. Licentium. Retrieved August 28, 2026, from <https://www.licentium.io/post/italy-dac8-carf-crypto-reporting-dlgs-194-2025>

⁵⁰ IRD : Inland Revenue (Amendment) (Crypto-Asset Reporting Framework and Amended Common Reporting Standard) Bill 2026. (n.d.). Retrieved August 28, 2026, from https://www.ird.gov.hk/eng/tax/aeoi/crs_bill_2026.htm

⁵¹ Blockhead. (2026, August 19). Singapore Moves to Plug Crypto Tax Gaps with Mandatory Exchange Reporting. Blockhead. Retrieved August 28, 2026, from <https://www.blockhead.co/2026/08/12/singapore-moves-to-plug-crypto-tax-gaps-with-mandatory-exchange-reporting/>

Jurisdiction	Status of CARF / equivalent reporting framework	Effective date	First reporting / exchange
United Arab Emirates	Signed the CARF-MCAA on 21 July 2025. Timeline is unchanged since the last edition. ⁵²	Go-live 2027	First exchanges in 2028
United States	Broker reporting rules already finalised, but narrowed: Congress repealed the DeFi broker rule in April 2025, so only centralised, custodial exchanges must report. CARF-implementing regulations are still being drafted.	2028 (proposed)	For 2027 transactions, with exchanges from 2029
South Africa	Draft regulations to adopt CARF and a revised CRS were released in September 2025, proposing a 1 March 2026 start. CASPs are already accountable institutions under FICA. ⁵³	1 March 2026	First reporting period runs to February 2027
India	CBDT issued a 198-page guidance note in July 2026 operationalising CARF reporting under Section 509 of the Income-tax Act, 2025 and Form 167. This replaces the 'not yet joined' position from the last edition - India is now implementing CARF domestically, with cross-border exchange targeted for April 2027. ⁵⁴	Data collection underway for 2026 transactions	First filings due 2027; cross-border exchange from April 2027
Saudi Arabia	No public consultation or CARF announcement. Unchanged since the last edition.	Not yet indicated	Not yet indicated
Turkey	No CARF guidance issued to date; broader domestic crypto tax legislation is still awaited. Turkey is now grouped with second-wave jurisdictions collecting data from 2027.	2027 (second wave)	2028

2.4 Where India sits in the emerging map

Read together, Tables 1 and 2 make the same point from two directions. On design, India is the only jurisdiction in this review that layers a transaction-level withholding tax on top of a flat tax with no loss offset; every other major market has converged on a single-layer approach - either ordinary capital gains treatment with holding-period relief, or a moderate flat/substitute rate, but not both a TDS and a punitive CGT design simultaneously. On reporting, India is moving in step with its peers on the CARF-implementing timeline (FY 2026-27), but this report's central

⁵² Crypto-Asset Reporting Framework public consultation. (n.d.-b). Retrieved August 28, 2026, from <https://msurvey.government.ae/survey/sharik/mvB/en/direct?mailref=0>

⁵³ Godongwana, E. (2025). DRAFT FOR PUBLIC COMMENT SOUTH AFRICAN REVENUE SERVICE. In SOUTH AFRICAN REVENUE SERVICE. Retrieved August 28, 2026, from <https://www.sars.gov.za/wp-content/uploads/Legal/Drafts/Legal-LPrep-Draft-2025-30-Draft-Revised-CRS-Regulations-for-Public-Comment-15-September-2025.pdf>

⁵⁴ CBDT issues guidance note on crypto reporting in line with OECD framework. (n.d.). Retrieved August 28, 2026, from <https://indianexpress.com/article/business/cbd-t-issues-guidance-note-on-crypto-reporting-in-line-with-oecd-framework-10804940/>

finding is that reporting alone cannot substitute for a domestic incentive structure that keeps volume onshore. **Keeping activity within compliant platforms also enables more effective information sharing and tax compliance.**

This is the throughline for the remainder of the report. Sections 3 through 5 quantify, using India-specific transaction data, precisely how much volume the current architecture is pushing offshore and what that costs the exchequer.

Section 3 - Data & Methodology

This section explains how we arrived at our estimates. Our main goal is to estimate how much crypto trading by Indians happens on offshore platforms, and how much TDS is going uncollected as a result. From there, we estimate how much income tax is being lost, and use these numbers to project what could happen over the next five years under different policy choices. This edition also uses website-traffic data on offshore platforms as an additional factor that helps in the overall estimation of volumes.

3.1 Understanding P2P trading and how we collected data

In P2P trading, users buy and sell crypto directly with each other, instead of through a regular centralized order book. Platforms that offer P2P let traders post buy and sell listings at chosen prices and order sizes, and hold the funds safely until both sides complete the trade. This kind of trading is much harder for authorities to track than trading on a centralized order book. P2P has become a large part of Indian crypto activity, especially after the 1% TDS was introduced.

To understand the scale of this activity, we collected publicly visible listing data from major offshore P2P platforms used by Indians. For each trader, we recorded details such as how active they are, their order completion rate, the payment methods they accept, and the minimum and maximum amounts they are willing to trade. We collected this data continuously from 2023 to 2026, building a large dataset covering thousands of individual traders. This data is the base on which all our volume estimates are built.

3.2. Estimating trading volume by Indians on domestic & offshore VDA platforms

To estimate the TDS that is going uncollected in 2025–26, we first need to estimate the total value of crypto trades made by Indians, both on Indian platforms and on offshore ones. Since this information isn't publicly available, we built our own method of estimating offshore volumes in India. This version improves on our last report by fixing issues we identified in our earlier approach.

3.2.1 Our approach

We focus on offshore P2P trading because it is the only part of the market where enough public data exists to build a reliable estimate. Indian platforms use centralized, closed order books and don't publish this kind of data, so we can't estimate their volumes the same way. We treat offshore P2P activity as a representative sample of offshore trading by Indians more broadly.

Here is how we built the estimate, step by step:

Turning trade activity into a monthly number.

These platforms usually don't tell us exactly how many trades someone completed in a given month. Instead, they show a constantly updating count of a trader's recent activity. To work around this, we take the count as it stood at the end of each month and treat that as the trader's activity for that month. This isn't perfect, but it's a reasonable stand-in, and it gives us a steadier, more reliable monthly picture.

Dealing with changing trade limits.

A trader's minimum and maximum order size can change during the day, and a trader can also run several listings at once. Because these limits shift so often, we cannot exactly tell how big a trader's real trades were. To handle this, for each trader we look at the widest range of limits we observed over the period, and we only count each trader once, even if they had several listings, so we don't double-count.

We also calculate a second version of this estimate that gives more weight to listings backed by larger amounts of crypto available to trade, since these tend to reflect real trading conditions better than a small listing that happens to quote unusually wide limits. We then average these two versions together, which gives a more balanced and realistic estimate than relying on just one method.

Putting it together.

For each trader, we calculate a monthly trading volume using the method above. We then add these up across all traders and all months to get a total volume for the reporting period. All of this is calculated directly in rupees, so there's no need for a separate step to convert crypto amounts into currency values.

3.3 Estimating loss to the exchequer and forecasting potential offshore trading volume

This section looks at two things: how much tax, both TDS and capital gains tax, is currently being lost because of offshore trading, and how much tax revenue could be collected in future under different policy choices. Our estimate of the offshore market's size, from the previous section, is the starting point for both.

First, we work out the current TDS shortfall by comparing how much TDS is actually being collected with how much would be collected if this offshore volume were happening on Indian platforms instead. Since TDS is charged at 1%, we can use the shortfall to work backwards and

estimate the total trading volume that is going unreported. We then assume that only a portion of these trades are actually profitable, based on common industry estimates, and apply the 30% capital gains tax rate to that profitable portion. This gives us our estimate of the income tax currently being lost.

To connect tax policy to market size, we rely on existing research showing that when withholding tax rates are lowered, trading volumes tend to rise significantly, and compliance improves. We use this relationship to build five-year projections under different scenarios: one where nothing changes and volumes stay offshore, and others where the government makes specific changes — such as lowering the TDS rate, allowing traders to offset losses against gains, or reducing the capital gains tax rate. For each scenario, we estimate how trading volume would grow, how much profit would result, and how much tax would be collected in total over five years. This lets us compare the likely revenue outcome of each policy path.

3.4 Web traffic analysis: unique Indian visitors to domestic & offshore VDA platforms

To support our volume estimates, we also looked at website traffic to offshore crypto platforms. We used third-party analytics data covering unique Indian visitors and how many of them went on to make a purchase, over a twelve-month period. We also studied how traffic patterns changed after certain offshore platforms were blocked, comparing this against platforms that remained accessible through their P2P services, to understand how much users simply moved elsewhere. Finally, we used this visitor data to estimate each offshore platform's share of the overall Indian user base, which helped us scale our volume estimates in other parts of the report.

Section 4 - Results & Analysis

This section applies the methodology set out in Section 3 to quantify the scale of offshore migration and its tax consequences. It estimates total offshore trading volumes and the corresponding uncollected TDS for FY 2025–26 , traces how these volumes have grown across successive measurement periods, and benchmarks them against the domestic market to establish the current onshore-offshore split. It then examines P2P volume trends on one of the largest offshore exchanges, isolating the INR corridor's growth against other fiat corridors to test whether the pattern is India-specific, before computing loss to the exchequer since Section 194S (now Section 393) came into force. The section closes by tracking user growth and purchase conversion on the platform's P2P interface and setting out the basis for the 40% market-share assumption used throughout.

4.1 Estimated total uncollected TDS and offshore volumes

Using the methodology explained in Section 3, the total volume traded by Indian users and the assets they hold on offshore platforms for FY25-26 and Q1 2026.

Table 3 - Uncollected TDS and offshore volumes estimate

S.no	Particulars	FY25-26 (in INR)	Q1 2026 (in INR)	April'25 - June'26	Assumptions/ Remarks
A	Grand Total Average of minimum and maximum P2P volumes (Indians on a major offshore P2P platform).	₹90,010 Cr.	₹22,366 Cr.	₹1,12,376 Cr.	Summation of average P2P min/max volumes derived from both standard and weighted-average methodologies; the average of both approaches mitigates directional bias from limit variations.
B	C2C Multiplier	₹3,60,040 Cr.	₹89,466 Cr.	₹4,49,506 Cr.	4x C2C multiplier to account for full transaction chain (coin-to-coin rotations per fiat entry/exit); conservative floor excluding additional routing amplifiers.
C	Offshore Volume	₹9,00,100 Cr.	₹2,23,665 Cr.	₹11,23,765 Cr.	The platform represents ~40% of total offshore trading by Indian users, derived from global exchange market share (35%), India-specific purchase conversion (45–50%), and secondary research (CoinDesk 25.9% spot market share). ⁵⁵
D	Uncollected TDS (1%)	₹9,001 Cr	₹2,236 Cr	₹11,237 Cr.	1% Of (C) value

⁵⁵ The 40% share assumption is derived by triangulating three independent sources: global spot exchange market share data placing the platform at approximately 35% , India-specific purchase conversion analysis across 43 offshore exchanges showing this platform commanding a disproportionate share of transaction completions , and secondary market research confirming approximately one-quarter of global spot volume alongside roughly four times the volume of the next-largest competitor, , and platform traffic data indicating approximately 2.5 crores of unique visitors during the measurement period- an estimate of the total number of distinct individuals who visit the specific website

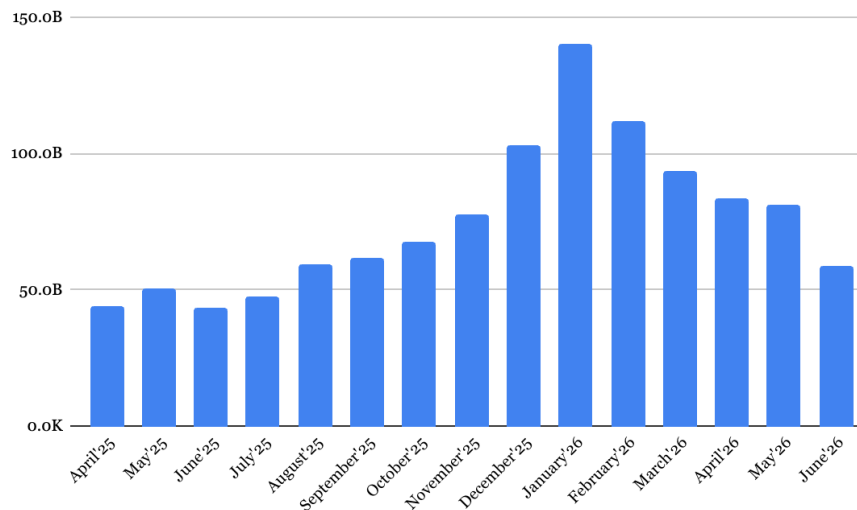


Fig 1: Average P2P volumes (INR fiat) - major offshore exchange's volumes in India

The P2P volume data from the largest offshore platform provides the foundation for estimating total offshore trading activity. The platform's P2P-attributable volume works out to ₹3,60,040 crore for FY 2025–26 and ₹4,49,506 crore for the extended April–June 2026 window.

This 4x C2C adjustment reflects the finding, corroborated across two of the largest onshore exchanges' data, that users typically execute multiple rotations per fiat entry or exit.

Grossing this platform's volume up by its estimated 40% share of the total offshore market yields a total offshore volume of ₹9,00,100 crore for FY 2025–26, rising to ₹11,23,765 crore over the fifteen-month April–June 2026 window. The corresponding 1% TDS shortfall is estimated at ₹9,001 crore and ₹11,237 crore respectively.

This uncollected TDS represents the statutory obligation that accrues on transactions routed through offshore platforms operating outside India's tax and AML/CFT perimeter.

4.2 Trends in offshore exchange volumes

The acceleration in offshore volumes is not speculative – it is corroborated across independent sources. ESYA data⁵⁶ documented ₹2.63 lakh crore in offshore volumes between October 2023 and October 2024. The TIOL report⁵⁷ recorded ₹4.87 lakh crore through October 2025 – a 1.8x increase. The latest estimates, based on the revised methodology set out in this report, place the

⁵⁶ Centre, E. (2024, December 9). The impact of India's VDA tax Policy: An update — ESYA Centre. ESYA Centre. Retrieved August 28, 2026, from <https://www.esyacentre.org/documents/2024/12/9/the-impact-of-indias-vda-tax-policy-an-update>

⁵⁷ Taxation of Digital Assets in India. (n.d.). Retrieved August 28, 2026, from https://tioltkf.org/wp-content/uploads/2025/11/taxation_of_digital_assets_in_india.pdf

figure at ₹8.17 lakh crore for October 2025–June 2026 alone. The trajectory is unambiguous: Indian transaction volumes are migrating offshore at an accelerating rate, and each successive measurement captures a larger gap between what is taxed and what is not.

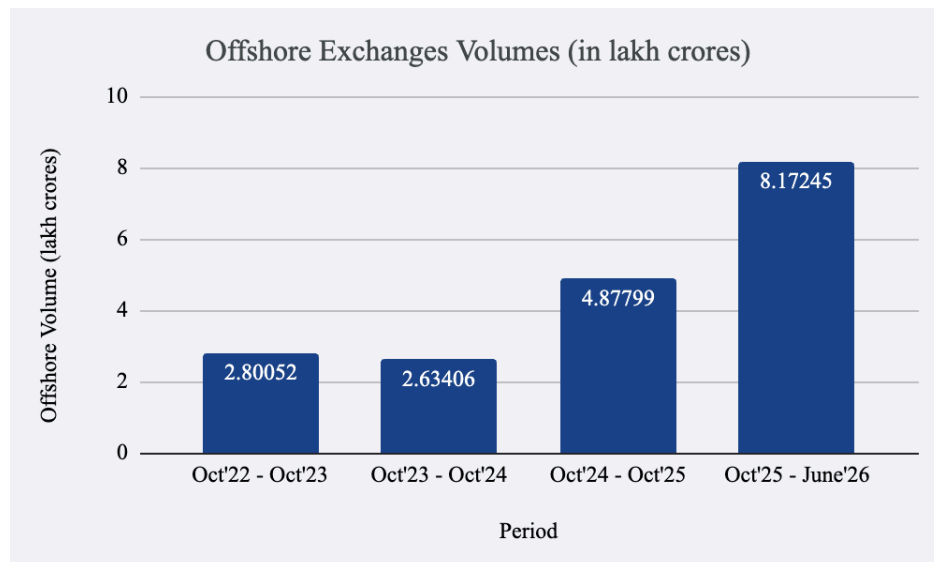


Fig 2: Offshore exchange volumes in India (lakh crores), by period

4.3 Domestic market share and overall market scenario

To benchmark the domestic market, we have used data from one of India's largest onshore exchange's, whose reported volumes for FY 2025-26 serve as the reference point. Based on this exchange's market share derived from TDS payments, which averaged approximately 40% of the domestic market across recent periods, total domestic exchange volume is estimated at approximately ₹51,446 crores.

Table 4 : Domestic Market Scenario

Particulars	Volume (in Cr.)
One of India's Largest Onshore Exchange's Volumes (basis TDS paid in FY25-26)	20,088
Domestic Market Share (basis DCX - TDS paid) FY22-23 : 33% FY23-24 : 35% FY24-25 : 50% FY25-26 (Average basis the last 3 periods) : 40%	51,446

When comparing domestic market volumes with the overall offshore volumes operating in India, we observe that offshore volumes account for approximately 95% of the total share, while domestic Indian platforms hold just 5.4%. This underscores the magnitude of volumes migrating offshore, and consequently, the share of TDS that the government is currently unable to collect under the prevailing 1% TDS regime.

Table 5 : Overall market scenario (2025-26)

Particulars	Offshore Vol.	Onshore Vol.	Leading Offshore Platform Vol.	Share of Domestic Exchanges	Ratio
Oct'23 - 24	2.63 lakh Cr.	45,248 Cr.	79,021 Cr. (30% of offshore)	14%	
Oct'24 - 25	4.88 lakh Cr.	45,000 Cr.	1.95 lakh Cr. (40% of offshore)	8.5%	2.46 times
FY25-26	9.00 lakh Cr.	51,446 Cr.	3.60 lakh Cr. (40% of offshore)	5.4%	1.84 times

The domestic share of India's crypto market has more than halved over two years, falling from 14% in Oct'23–24 to 5.4% by FY25-26, even as the ratio of offshore-to-onshore volume growth continues to widen. Onshore volumes have stayed largely flat in the ₹45,000–51,000 crore range across this period, while offshore volume has more than tripled – confirming that the divergence is driven by **new trading activity shifting offshore, not by any actual contraction of the domestic market itself.**

INR's Divergence from Global P2P Trends

The offshore concentration established in Section 4.3 is mirrored in a sharper pattern within the leading offshore platform's own P2P book: INR is the only major fiat corridor moving against the global trend.

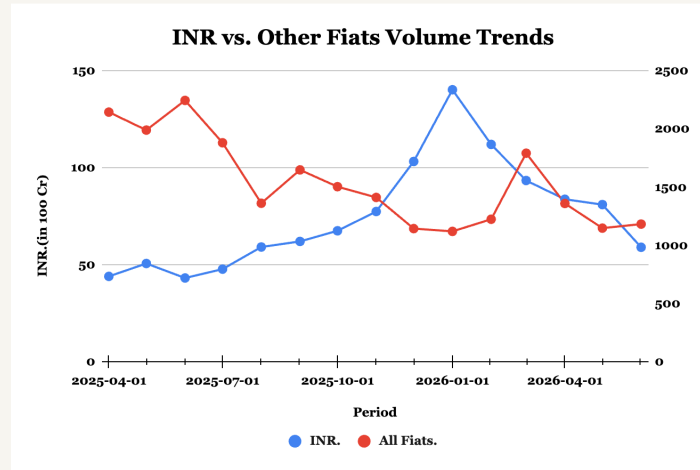


Fig 3: P2P volume trends — INR vs. all other fiat corridors combined (Apr 2025–Jun 2026)

From a base of ₹4,500 crore in April 2025, INR volumes end the period up close to 29%, growing at an average pace of about 1.8% a month. Every other fiat corridor combined moved the opposite way, closing over 46% lower — the only sustained climb against a declining aggregate across the entire dataset.

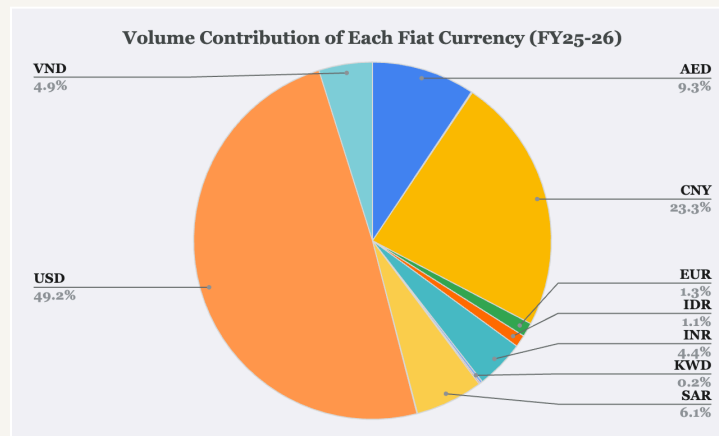


Fig 4: Volume contribution by fiat currency, FY 2025–26

INR accounts for just 4.4% of the platform's total P2P mix — smaller than AED or KWD — yet it is the fastest-growing corridor on the book. **A single-digit currency share driving outsized volume growth is consistent with this report's central finding: the migration is not a function of overall platform scale, but of India-specific tax incentives pulling volume toward P2P.**

Source : Internal Calculations

4.4 Estimated Loss to the Exchequer to Date

Cumulative uncollected TDS since Section 194S (now Section 393) came into force now stands at approximately ₹19,049 crore, of which ₹8,172 crore has accrued in the nine months since October 2025 alone – a period that accounts for close to 43% of total uncollected TDS despite covering under a year of the roughly four-year span since the regime began.

Grossing this shortfall up at the statutory 1% rate implies unreported turnover of ₹19,04,900 crore. Applying the same conservative 10% profitability assumption used throughout this report, and the 30% capital gains rate, yields an estimated loss to the exchequer of ₹57,147 crore to date.

Read alongside the estimate of FY 2025–26, this confirms that the compliance gap is not a one-year phenomenon but a compounding shortfall that has widened.

Table 6 : Estimated loss to the exchequer calculation

Particulars	Estimate (INR Cr.)
Uncollected TDS from the offshore players till Oct'25; since the implementation of 1% TDS	10,877 Cr.
TDS Uncollected (Oct'25–June'26): Offshore Platforms Estimate	8,172 Cr.
Total TDS Uncollected till now (present scenario) - for offshore platforms	19,049 Cr.
Conversion to Trading Volume	19,04,900 Cr.
Assuming 10% made profitability (basis the average profitability percentage of the industry)	1,90,490 Cr.
Estimated Loss to the Exchequer to date - (30% CGT Rate)	57,147 Cr.

4.5 P2P platform growth among Indian users

The quantified shortfall in Section 4.5 reflects volumes that have migrated beyond India's tax perimeter – a shift that is most visible in the accelerating user base and transaction intensity on offshore P2P channels. The following data tracks this migration's trajectory.

Between July 2025 and April 2026, unique visitors from India to this platform's P2P interface rose from 78,000 to 135,000 — a 73% increase. The growth was not uniform: a clear inflection point emerged from October 2025 onwards, coinciding with FIU-IND's blocking of 25 non-compliant offshore exchanges. Users displaced from those platforms did not migrate to compliant domestic exchanges; they migrated to P2P channels instead.

P2P platform - Indian unique users

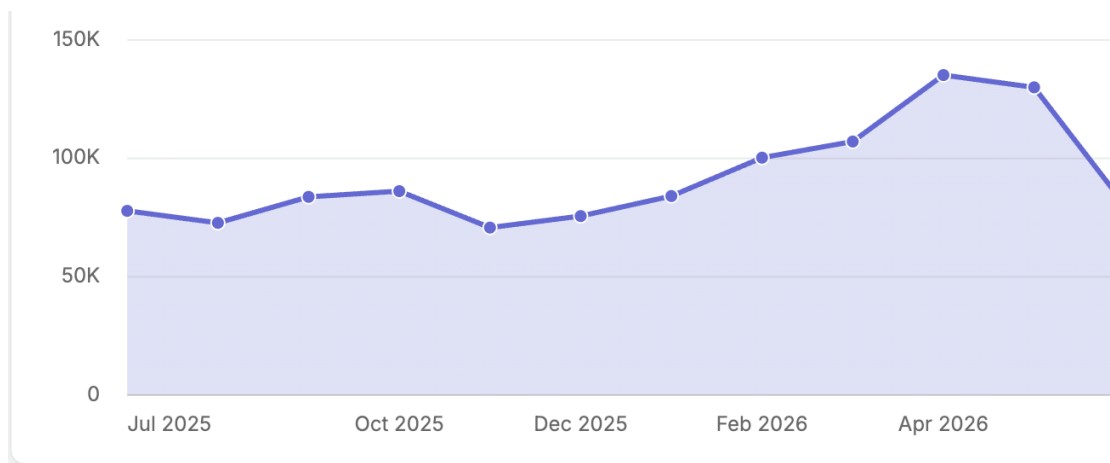


Fig 5: Biggest Offshore P2P platform; Indian unique users, July 2025–June 2026

Rising traffic alone would be concerning; rising conversion confirms that the traffic is transactional. Purchase conversion⁵⁸ on this platform's P2P interface (the estimated percentage of sessions ending in a completed checkout) shifted to a sustained growth trend from October 2025, climbing to 2.17% by June 2026.

This represents a 3.6x acceleration within June 2026 compared to the prior trend. The October 2025 inflection point is again unmistakable: the same month that saw displaced users arrive at this P2P channel also marked the moment those users began transacting, not merely browsing.

Purchase conversion of the P2P platform in India

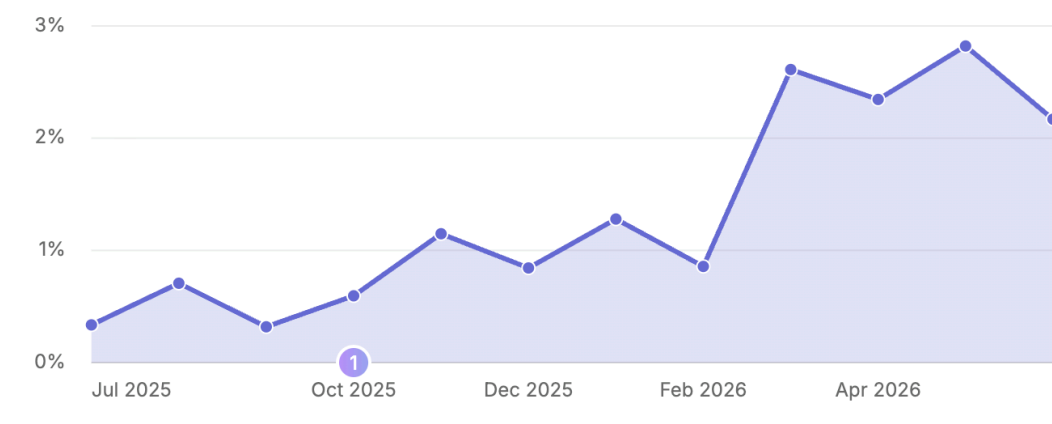


Fig 6: Purchase conversion of leading offshore platform's P2P interface

⁵⁸ Purchase Conversion is a competitive intelligence metric that estimates the total number (or proportion) of website visits that end with a completed transaction or conversion

Taken together, the two preceding graphs establish a compounding pattern: more Indian users are arriving at this leading offshore platform's P2P interface, and a growing proportion of those visitors are completing purchases. This is not passive browsing - it is active trading at scale.

The durability of this shift becomes clear when set against historical baselines.

Purchase conversion trends over years

On the P2P page of the biggest offshore exchange in India, purchase conversion has risen materially in 2026 relative to 2024 and 2025, climbing from under 1% in January to a peak of nearly 3% by May, well above the 2024 and 2025 lines which stayed under 1% through most of their respective years. The gap between 2026 and the prior two years starts widening from around September 2025 onward, with the 2025 line itself showing a modest but steady pickup through the final quarter of the year, corroborating the P2P-specific acceleration.

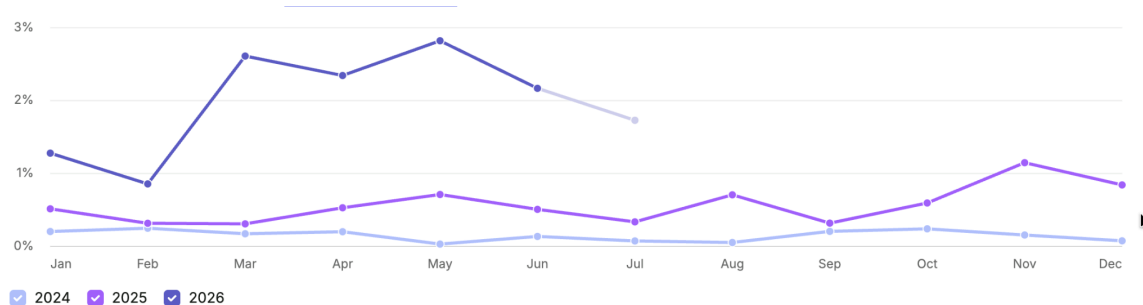


Fig 7: Purchase conversion trends over years (2024, 2025, 2026)

Unique visitors - geo distribution

Geographic distribution of unique visitors to this leading offshore platform places India among its top five source markets globally, at 7.32% of all visits and 1.1 million unique users, trailing only Venezuela. The user base skews notably more mobile in India than in most other leading markets, with mobile accounting for 46.89% of visits against a desktop share of 53.11% - a mobile skew higher than the United States, Argentina, or Bangladesh, and second only to Venezuela among the top five. This points to a broad, mobile-first user base rather than one concentrated among a narrow segment of desktop traders.

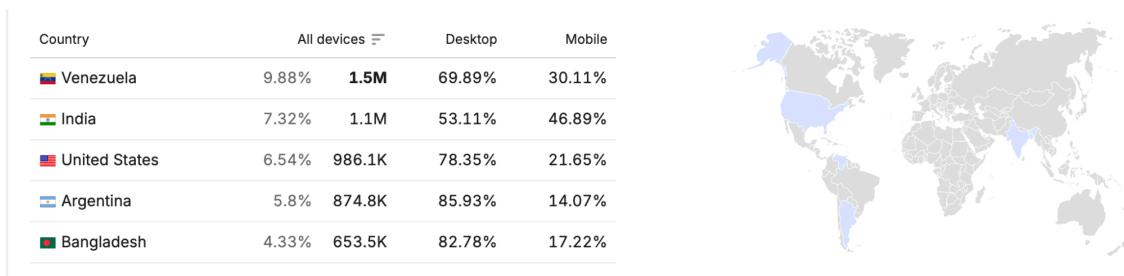


Fig 8: Unique visitors — geo distribution by country

Traffic analysis of the 25 offshore platforms issued takedown notices

The other side of that migration is visible in the platforms users left behind. In October 2025, FIU-IND issued compliance notices to 25 offshore platforms – including BingX, BTCC, LBank, CoinW, and ProBit Global – for operating in India without PMLA registration. These platforms were directed to withdraw their applications and websites from public access within India. The following graphs track the web traffic trajectories of these platforms post-notice. A consistent pattern emerges: traffic to the blocked platforms declined, but as the P2P data shows, the displaced volume did not return to compliant domestic exchanges.

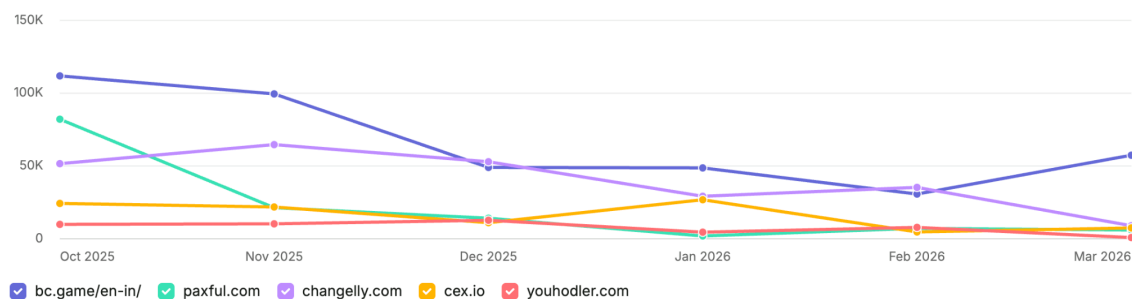


Fig 9: Decreasing trends witnessed on platforms such as BC.Game, Paxful, Changelly, CEX, and YouHodler

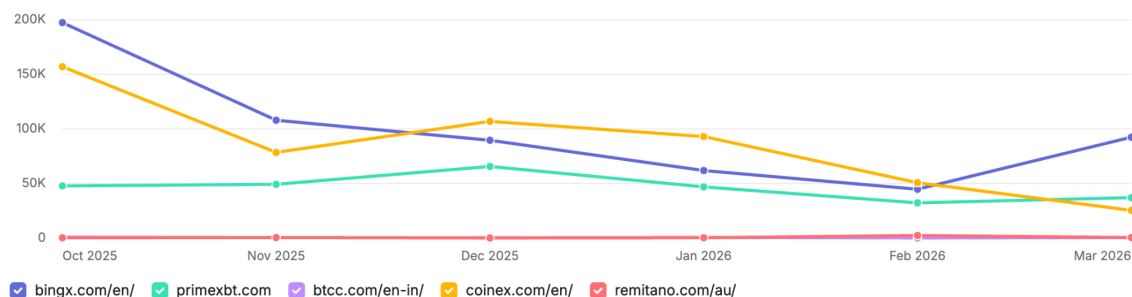


Fig 10 : Decreasing trends witnessed on platforms such as BingX, PrimeXBT, BTCC, CoinEX and Remitano

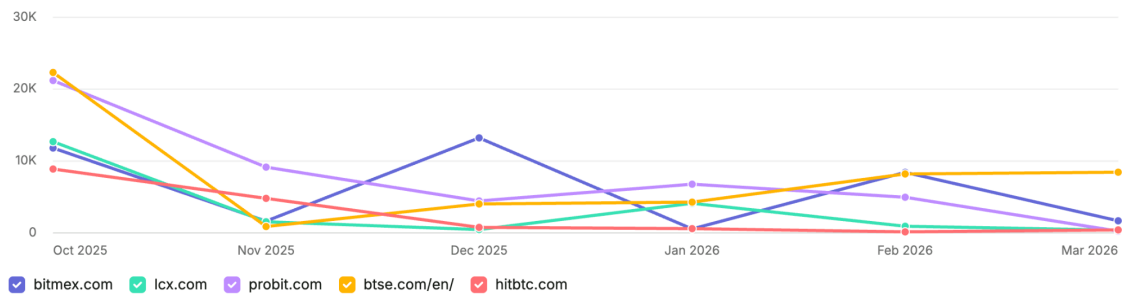


Fig 11 : Decreasing trends witnessed on platforms such as Bitmex, LCX, Probit, BTSE, HitBTC

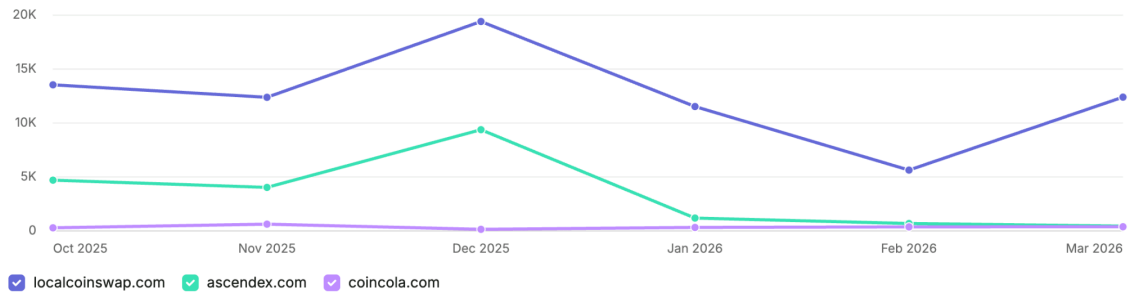


Fig 12 : Decreasing trends witnessed on platforms such as LocalCoinswap, Ascendex and Coincola

Section 5 - Forecasting Future Volumes

The offshore migration documented in Section 4 is not a static condition but an accelerating trend. This section projects how Indian offshore trading volumes will evolve if the current tax architecture remains unchanged, establishes the trend-based growth rate that anchors these projections, and then models three policy scenarios – each introducing a distinct reform lever – to demonstrate how recalibration of the TDS rate, capital gains tax, and loss-offset rules could materially alter both the trajectory and the tax revenue recovered

5.1 Growth trend assessment

The four annual data points available for offshore volumes are:

Table 7 : YoY Offshore Volume Growth

Period	Volume (in INR)	YoY Growth
Oct'22 - Oct'23	2.8 lakh Cr.	-
Oct'23 - Oct'24	2.63 lakh Cr.	-5.9%
Oct'24 - Oct'25	4.88 lakh Cr.	85.2%
Oct'25 - March'26	5.93 lakh Cr.	84.4%

5.2 Forecasting growth of Trade Volume based on Historical Trends

Projection Formula

Let

- $V_0 = 9,00,100$ (the actual for FY 24-25)
- $k=1,2,\dots$ (years after FY 25-26)

$$V_k = V_0 + k * \Delta V$$

Table 8 : Calculation of the average absolute change(used for projections)

Period	Volume(Indians on offshore platforms) - INR Cr.	Absolute Δ vs. prior year	Weighted Average Deviation
Oct'22 - Oct'23 ⁵⁹	2,80,052		
Oct'23 - Oct'24 ⁶⁰	2,63,406	-16,646	-1,387/month
Oct'24 - Oct'25	4,87,799	2,24,393	18,699/month
Oct'25 - March'26	5,93,580	1,05,781	17,630/month

Weighted average rate (weights = 12,12,6, total months =30)

$$= [(-1,387 \times 12) + (18,699 \times 12) + (17,630 \times 6)] / 30$$

$$= [-16,644 + 2,24,388 + 1,05,780] / 30$$

$$= 3,13,524 / 30 = 10,451/\text{month}$$

$$\text{Annualized: } 10,451 \times 12 = 1,25,412$$

5.3 FY25-26: an exception year

FY26 stands out as a year of exceptional activity in offshore volumes, with a pronounced spike from around September–October 2025 onward. This surge is attributable to a combination of factors rather than a shift in underlying, sustainable demand:

Domestic Factors

- **FIU-IND action against offshore platforms (October 2025):** 25 offshore exchanges were directed to exit India for operating without PMLA registration. A significant share of

⁵⁹ Referred from ESYA - Impact Assessment of Tax Deducted at Source on the Indian Virtual Digital Asset Market (November 2023) (<https://www.esyacentre.org/documents/2023/11/9/impact-assessment-of-tax-deducted-at-source-on-the-indian-virtual-digital-asset-market>)

⁶⁰ ESYA Centre, *The Impact of India's VDA Tax Policy: An Update* (December 2024) <https://www.esyacentre.org/documents/2024/12/9/the-impact-of-indias-vda-tax-policy-an-update> accessed 13 November 2025.

displaced users moved to P2P channels rather than exiting the market or migrating to compliant domestic exchanges, pushing volumes higher through this route.

- **India's 1% TDS structurally favouring P2P:** Since every on-exchange transaction attracts a 1% TDS under Section 393, P2P remains the structurally cheaper route for accumulation-focused buyers, sustaining a steady pull toward P2P volumes outside effective enforcement.
- **CBDT notices to domestic exchange users (2025):** The CBDT issued 44,000 notices to compliant domestic users as part of its NUDGE campaign, prompting many to reconsider using regulated domestic platforms. A portion of these users migrated to offshore channels where TDS does not apply, further widening the cost advantage of offshore over domestic platforms and adding to P2P volumes.

Global Factors

- **Global rate-cut cycle and rotation into crypto:** The US Fed's rate cuts through September–October 2025 reduced the relative appeal of yield-bearing instruments and strengthened demand for scarce assets such as BTC, with spot Bitcoin ETF inflows accelerating over the same period.
- **Broadening institutional and sovereign accumulation:** Growth in sovereign and corporate holdings of BTC through 2025 widened the institutional base globally, reinforcing the broader uptrend that domestic P2P demand has been riding on.
- **Price breakout adding demand pull:** BTC's move into fresh price discovery over the same window independently drew in additional buyers, adding to volumes alongside the regulatory and macro triggers above.
- **Consistent with global regulatory findings:** FATF's March 2026 Targeted Report on Stablecoins and Unhosted Wallets flags P2P activity outside AML/CFT-obliged intermediaries as a significant emerging vulnerability, particularly in jurisdictions with weaker VASP enforcement — a pattern India's post-2025 P2P surge fits, sharpened locally by the FIU-IND action and tax-driven migration.

Given this, FY26 reflects a confluence of one-time and cyclical triggers rather than a steady-state growth pattern, and projecting forward at this scale would overstate the market's underlying trajectory.

5.4 Forecasted volumes

Table 9 - Forecasted offshore trading volumes, FY26–FY31

Financial Year	Forecasted Volume (₹ Cr)	Forecasted Volume (₹ Lakh Cr)
FY25-26 (Actual/Base)	9,00,100	9.00
FY26-27	10,25,512	10.25
FY27-28	11,50,924	11.50
FY28-29	12,76,336	12.76
FY29-30	14,01,748	14.01
FY30-31	15,27,160	15.27

On the weighted average monthly step-up derived in Table 9, offshore trading volumes are projected to grow from ₹9.00 lakh crore in FY 2025–26 to ₹15.27 lakh crore by FY 2030–31 - an increase of nearly 70% over five years, even on a trend basis that deliberately excludes the one-off triggers set out in Section 5.3.

If left unaddressed, this trajectory implies a steadily widening base of unreported turnover and a corresponding growth in uncollected TDS and capital gains tax with each passing year. The scenarios that follow model what happens to this trajectory, and to the compliant share of it, once the domestic tax framework is recalibrated.

5.5 Future scenario analysis: potential government revenue under a recalibrated framework

Using Table 9 as the baseline, we present three scenarios illustrating how government revenue could rise with improved compliance, drawing on the same modelling approach used in the previous edition. Each scenario grosses up the forecasted offshore volume to a total projected market size - treating the offshore figure as the non-compliant 90% share of total Indian trading volume, consistent with the offshore-dominance finding established through Section 4 - and then re-allocates a larger share of that total into the compliant, TDS-visible bracket as each policy lever takes effect.

- First, reducing the TDS rate is expected to encourage higher onshore participation and reporting, broadening the tax base and lifting projected domestic compliance back towards the levels seen before the 1% TDS took effect in July 2022.
- Second, a calibrated reduction in capital gains tax could draw further activity into the regulated perimeter, building on the compliance recovered under the first scenario.
- Finally, permitting the offset of losses - tied to trades executed through FIU-registered platforms - is modelled as the strongest lever, recapturing most of the remaining activity that migrated offshore following the 2022 Budget's combination of a flat 30% CGT rate and no loss set-off.

Scenario 1 - TDS reduction from 1% to 0.01%: compliance restored to ~59%

The first exhibit translates a lower TDS rate into higher domestic compliance, assumed to revert to approximately 59% - the level observed before the July 2022 policy change⁶¹. Under this shift, potential onshore volumes rise from ₹6.72 lakh crore in FY26-27 to ₹10.01 lakh crore by FY30-31.

Table 10 : Projected government revenue if TDS is reduced to 0.01%

Financial Year	Total Projected Volume	Projected Volume at 59% Compliance	Profitability (10%)	Capital Gains Tax (30%)
FY26-27	11,39,458	6,72,280	67,228	20,168
FY27-28	12,78,804	7,54,494	75,449	22,635
FY28-29	14,18,151	8,36,709	83,671	25,101
FY29-30	15,57,498	9,18,924	91,892	27,568
FY30-31	16,96,844	10,01,138	1,00,114	30,034
5 year total				1,25,506 Cr.

Applying the conservative 10% user profitability assumption used throughout this report, taxable profits rise from roughly ₹67,228 crore in FY26-27 to ₹1,00,114 crore by FY30-31, yielding a cumulative capital gains tax collection of approximately ₹1,25,506 crore over the five-year

⁶¹ For the period before July '22 (when TDS was introduced), domestic compliance is estimated at ~59% (Scenario 1). Between April-June '22, domestic trading volumes fell by 14%(as evident by ESYA study - Link : refer point 4 - page 4 highlights) ; adjusting for overlap with June (already captured in the pre-TDS estimate), we conservatively treat 11% as lost domestic compliance. If capital gains tax is reduced from 30% to 15-18%, we assume this 11% returns, taking domestic compliance from 59% to ~70%. ESYA Centre, The Impact of India's VDA Tax Policy: An Update (December 2024) 4, point 4 <https://www.esyacentre.org/documents/2024/12/9/the-impact-of-indias-vda-tax-policy-an-update> accessed 28th August 2026.

window - well above the collection trajectory implied by the status-quo path , where the bulk of this volume would otherwise remain outside the TDS net entirely.

Scenario 2 : Capital gains tax reduction from 30% to 15–18%: compliance restored to ~70%

Extending the same framework, this scenario models a cut in capital gains tax to a long-term rate structure comparable to those seen across other major jurisdictions. We assume this lifts compliance further to approximately 70%⁶², recapturing activity lost in the immediate aftermath of the 2022 Budget's capital gains announcement, on top of the 59% baseline restored under Scenario 1.

Table 11 : Projected government revenue if capital gains tax is reduced

Financial Year	Total Projected Volume	Projected Volume at 70% Compliance	Profitability (10%)	Capital Gains Tax (30%)
FY26-27	11,39,458	7,97,621	79,762	23,929
FY27-28	12,78,804	8,95,163	89,516	26,855
FY28-29	14,18,151	9,92,706	99,271	29,781
FY29-30	15,57,498	10,90,249	1,09,025	32,708
FY30-31	16,96,844	11,87,791	1,18,779	35,634
5-year total				1,48,907 Cr.

Under this setting, potential onshore volumes climb from ₹7.98 lakh crore in FY26-27 to ₹11.88 lakh crore by FY30-31. Even applying the illustrative 30% rate shown in the table for comparability with the other scenarios, five-year collections total approximately ₹1,48,907 crore; at the actual 15–18% reduced rate this analysis is built around, collections would scale proportionally off a materially larger compliant base, giving the government stronger visibility over future receipts even at a lower headline rate.

⁶² Ibid

Scenario 3 : Offset of losses permitted (via FIU-registered platforms): compliance restored to ~85%

Under this scenario, loss set-off is permitted only where trades are executed through FIU-registered entities, which is modelled as lifting domestic compliance to approximately 85%⁶³ - building on the 70% baseline restored under Scenario 2 and recapturing most of the remaining activity that moved offshore following the 2022 Budget's combination of a flat 30% CGT and no provision to offset losses.

Table 12 : Projected government revenue if provision to offset losses is allowed

Financial Year	Total Projected Volume	Projected Volume at 85% Compliance	Profitability (10%)	Capital Gains Tax (30%)
FY26-27	11,39,458	9,68,539	96,854	29,056
FY27-28	12,78,804	10,86,983	1,08,698	32,609
FY28-29	14,18,151	12,05,428	1,20,543	36,163
FY29-30	15,57,498	13,23,873	1,32,387	39,716
FY30-31	16,96,844	14,42,317	1,44,232	43,270
5-year total				1,80,814 Cr.

As more activity moves onshore, potential volumes rise from ₹9.69 lakh crore in FY26-27 to ₹14.42 lakh crore by FY30-31. Applying the same 10% profitability assumption and 30% CGT rate, this scenario yields the highest five-year collection of the three at approximately ₹1,80,814 crore — nearly 21% higher than Scenario 2 and over 44% higher than Scenario 1. Taken together, the three scenarios show a consistent pattern: each additional lever - a lower TDS rate, a lower CGT rate, and the ability to offset losses - pulls a further slice of offshore activity back into the compliant, taxable perimeter, and the resulting revenue gain from a broader base consistently outweighs what the current architecture collects from a shrinking one.

⁶³ As covered in the preceding footnotes, supported by findings from the ESYA 2023 report : https://static1.squarespace.com/static/5bcef7b429f2cc38df3862f5/t/63b3e553ad8cdb68e72eed40/1672734043690/230103_Esya_Centre_Special_Issue_VDA_Taxation_Architecture.pdf

Section 6 - Conclusion and Recommendations

The evidence assembled across this report points to a single, unavoidable conclusion: India's VDA tax framework is not falling short at the margins - it has lost the core of the market it was built to tax. Domestic exchanges, operating fully within India's compliance and AML/CFT perimeter, now handle just 5.4% of Indian crypto trading volume. The remaining 95% - approximately Rs. 9,00,100 crore in FY 2025–26 alone - moves through offshore venues beyond the reach of Indian tax authorities, with P2P channels emerging as the structural pathway of choice.

This is not a static problem. The trajectory documented in Sections 4 through 6 shows an offshore market that is not merely large but accelerating: unique Indian visitors to the biggest offshore P2P platform rose 73% between July 2025 and April 2026, purchase conversion rose 3.6x over the same window, and the October 2025 FIU-IND blocking action - rather than reducing offshore participation - instead pushed displaced users further into P2P. Absent intervention, trend-based forecasting places offshore volumes at Rs. 15.27 lakh crore by FY 2030–31, nearly 70% above the current base, carrying a proportionately widening tax shortfall with it.

Cumulatively, since Section 194S came into force, uncollected TDS stands at approximately Rs. 19,049 crore and estimated loss to the exchequer at approximately Rs. 57,147 crore - a compounding shortfall, not a one-time miss. Critically, this report's scenario analysis (Section 6.5) demonstrates that this is a recoverable loss, not a sunk one: recalibrating the tax architecture - rather than intensifying enforcement against a shrinking compliant base - can restore participation and taxable turnover together, producing materially higher revenue than the status quo yields today.

The comparative analysis in Section 2 reinforces that India's architecture, not merely its tax rate, is the outlier among G20 and major crypto jurisdictions. No comparable market layers a transaction-level withholding tax on top of a flat, loss-blind capital gains rate; the rest of the world has converged on single-layer designs paired with intermediary-level reporting. India's own move toward CARF implementation is a step in the right direction, but reporting infrastructure cannot substitute for a domestic incentive structure that keeps volume onshore in the first place - **a jurisdiction cannot exchange information about activity that has already migrated beyond its own compliant platforms.**

The choice, then, is not between enforcement and no enforcement. It is between a framework that keeps activity offshore and taxes a shrinking base at a high nominal rate, and one that

brings activity onshore and taxes a much larger base at a moderate, sustainable one. Section 6.5's scenario modelling shows the latter path recovering up to Rs. 1,80,814 crore in capital gains tax over five years - over 44% more than either single-lever reform alone, and dramatically more than the current trajectory yields.

Recommendations

Building on the findings above, this report reiterates and consolidates five recommendations, each targeting a distinct point of leakage identified across Sections 3 through 6:

1. **Insert an Explanation under Section 393(1), Sl. No. 8(vi) [S. 194S], on the lines of the Explanation to Section 194-O(1),** to close the P2P loophole offshore platforms rely on. Offshore platforms structure transactions as P2P — matching buyer and seller while INR flows directly between them over Indian banking rails — and argue that since they never handle the funds, they are not the "person responsible for paying" under Section 194S, citing Circular No. 14/2022 in support. Section 194-O(1) already resolves this for e-commerce, deeming any payment made directly to a seller but facilitated by an operator to be paid by the operator itself, regardless of fund flow. The same deeming fiction should extend to VDA exchanges, brokers, and similar intermediaries — bringing offshore platforms within the same enforcement logic already established for foreign digital platforms — closing the interpretive gap that offshore platforms currently rely on to justify non-deduction, and directly targeting the P2P evasion channel quantified in Section 4.5.
2. **Reduce the TDS rate under Section 393 of the Income Tax Act, 2025,** to a level that preserves the tracking function without creating a material cost differential between compliant and non-compliant channels. Section 5.5's Scenario 1 models a reduction to 0.01%, restoring domestic compliance to approximately 59% and yielding a cumulative five-year capital gains tax collection of approximately Rs. 1,25,506 crore — the revenue impact of a lower rate applied to a substantially larger compliant base is likely to exceed what the current rate collects from a shrinking one.
3. **Introduce Section 379A in the Companies Act, 2013 through the Corporate Laws (Amendment) Bill, 2026,** requiring offshore digital platforms targeting Indian users to register domestically and accept all consequent tax obligations, including under Section 393, GST, and any applicable Significant Economic Presence framework. This brings India in line with emerging G20 practice, as set out in Section 2 — Australia, the EU (MiCA) and Dubai (VARA) all require a local legal presence from foreign VDA service providers.

4. **Strengthen FIU-IND enforcement by making registration and a physical place of business in India a precondition for lawfully servicing Indian users.** Banks, payment aggregators and UPI service providers should be directed to block INR flows to unregistered VDA service providers, and FIU-IND should be empowered to direct app stores to delist non-compliant exchange applications. Section 4.5's traffic analysis shows that URL-blocking alone, as applied to the 25 offshore platforms in October 2025, reduced traffic to those specific platforms without reducing aggregate offshore volume — enforcement must target the banking and distribution rails that offshore platforms depend on, not just the platforms' web presence.
5. **Extend CARF and SFT obligations expressly to all platforms servicing Indian domicile users, regardless of country of incorporation.** With CARF implementation now underway domestically (Section 2.3) and cross-border exchange targeted for April 2027, bringing VDA exchanges — onshore and offshore alike — within Statement of Financial Transaction reporting would give tax authorities an independent, transaction-level data trail against which TDS compliance and CARF disclosures can be cross-verified, closing the loop that Recommendations 1 through 4 open.
6. **Allow set-off and carry-forward of losses** on VDA transactions, consistent with treatment available for other asset classes.
7. **Reduce the flat 30% capital gains tax rate** on VDA transfers to a level consistent with other comparable asset classes, so that the tax treatment does not by itself push users and volume toward offshore, non-compliant platforms.

Taken together, these five measures address the three failure points this report has identified in sequence: a rate structure that makes non-compliance rational (Recommendation 1), a legal gap that lets offshore platforms exploit P2P and non-residence to avoid deduction (Recommendations 2 and 3), and an enforcement and data architecture that cannot currently see or act on offshore activity (Recommendations 4 and 5). Implemented together, they offer a credible path to reversing five years of accelerating offshore migration — and to converting an estimated Rs. 57,147 crore loss to the exchequer into a durable, growing, and largely voluntary revenue stream.

