

INDEPENDENT RESEARCH | REPORT 001 | TWO-PAGE SUMMARY

Tax Without Recognition: the report in brief

Khuswant Sharma | Published 25 July 2026 | Research as of 25 July 2026

IN ONE LINE **India taxes virtual digital assets at one of the highest effective rates in the world while refusing to define what they legally are. On 23 July 2026, a Parliamentary committee went against the RBI's view and recommended a regulatory framework instead.**

30%
Flat tax on VDA gains, no loss offset

1%
TDS on the value of every transfer

~90%
Indian trading volume now offshore, per exchanges

8.5%
USDT premium over USD/INR, late June 2026 (reported)

Five things to know

- **The numbers disagree by a factor of three.** 39.3 million KYC-verified accounts on registered domestic platforms vs 119 million users on Chainalysis's modelled estimate. The much-quoted $340 billion is gross on-chain volume, not capital inflow.
- **The tax regime failed on its own terms.** It was meant to bring trading into the tax net. By exchanges' own figures, close to 90% of Indian trading volume has moved offshore.
- **The RBI has hardened.** On 2 July 2026 it told the Standing Committee on Finance it favours containment leaning towards prohibition.
- **Parliament moved the other way.** The committee's 36th Report (23 July 2026) recommended an interim framework run by recognised self-regulatory organisations under a statutory regulator, and a legal taxonomy for VDAs.
- **Nothing has changed yet.** It is only a recommendation. The tax regime and the RBI's position are untouched, but the disagreement is now on the parliamentary record.

India's crypto user count depends on who is counting

Three estimates, million users. They measure different things and should not be averaged

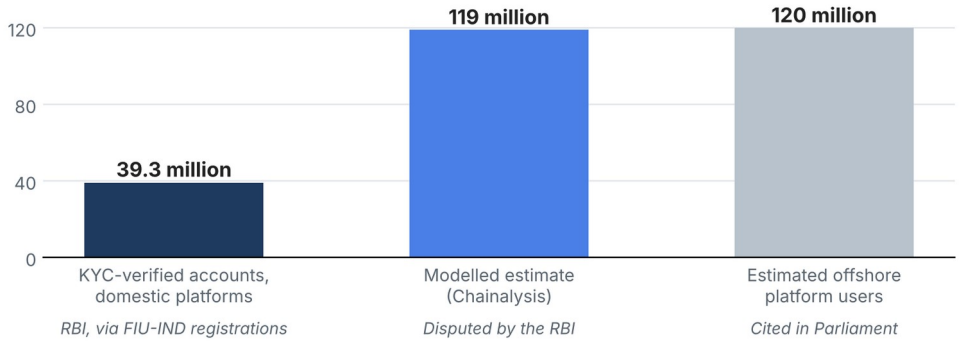


Figure 1. The three figures measure different things. 39.3 million is verified accounts on registered domestic platforms; 119 million is a modelled estimate the RBI disputes; the offshore figure is a parliamentary citation, not an audited count.

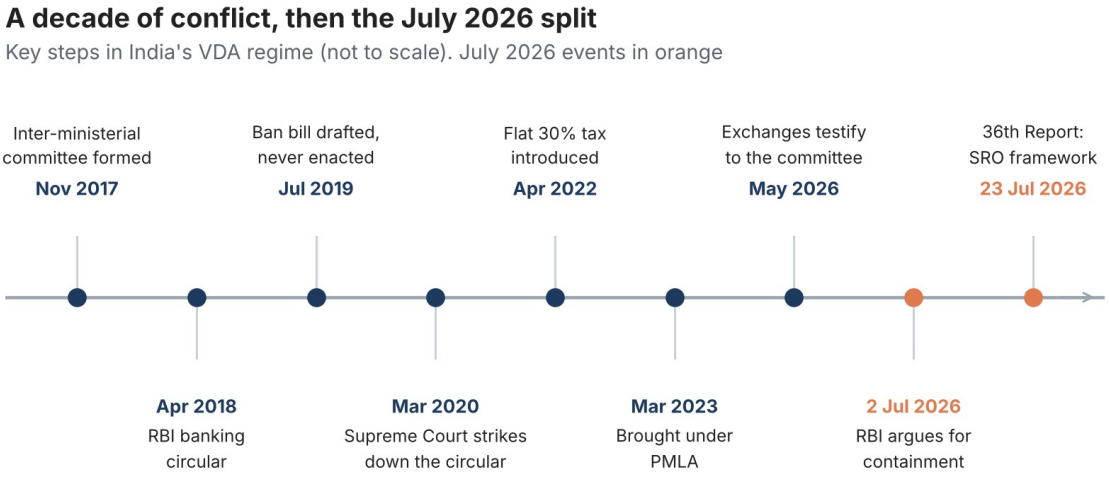


Figure 2. How the regime was assembled: a 2018 banking circular struck down in 2020, a 30% tax in 2022, PMLA in 2023, then the July 2026 split between the RBI and Parliament.

Three paths from here (the author's judgment, not a calculation)

Scenario	Likelihood	What happens	What it means
Containment-plus: status quo hardens	About 45%	Neither the RBI's prohibition option nor the SRO framework is adopted in full; tax and reporting tighten	Stablecoin premium persists or widens; offshore share keeps rising
Framework-lite: SRO route adopted	About 35%	Government adopts the SRO recommendation through regulatory guidance	Domestic exchanges gain a compliance moat; offshore flow slows only if tax also changes
Prohibition-adjacent: rails severed	About 20%	Banks and regulated entities are formally barred from crypto exposure	Premium widens sharply; volume moves to peer-to-peer and offshore

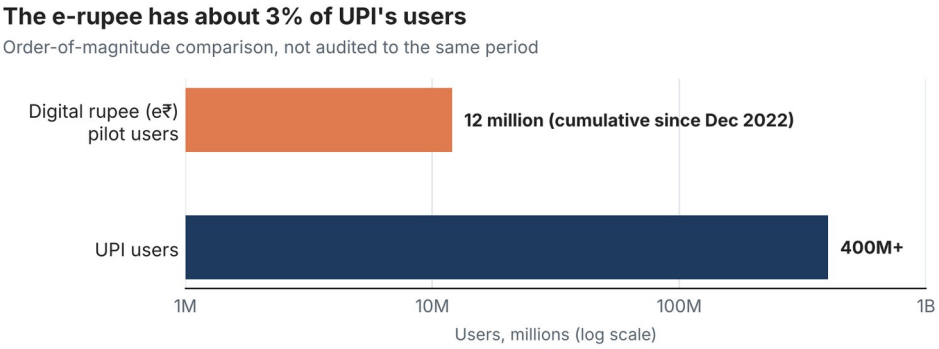


Figure 3. Log scale. After three and a half years, the e-rupee pilot has about 3% of UPI's user base, so it is not yet a substitute for the demand that drives private crypto.

What this means for allocators

- **Exchange equity carries binary regulatory risk.** The gap between the SRO route and severed banking rails cannot be diversified within India.
- **Compliance is an asset for incumbents.** 54 registered providers, direct data-sharing with the tax department and CARF from April 2027 form a barrier that becomes a licence under the SRO route.
- **Tax, not legal status, drives retail flow.** 30% tax, 1% TDS and 18% GST on fees can take the burden above 42%. Clarity without tax reform is unlikely to bring volume back onshore.
- **Underwrite the denominators.** The defensible domestic figure is 39.3 million KYC-verified users with roughly $2.1 billion in holdings visible to tax authorities, not 119 million or $340 billion.

Full report, sources and method: khuswantsharma.com/research/tax-without-recognition

Disclosure: the author holds no position in any digital asset, exchange or company named, and is a Private Equity Fellow at IVCA. Independent work that does not represent the views of IVCA or its members. Not investment advice.