

A Study on the Preference of Investors towards Cryptocurrency

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ABSTRACT

This explicit project has been supported primary and secondary knowledge collected. There's an introduction of cryptocurrency, its workings and current day scenario of cryptocurrency in India. The objective of the analysis is to grasp knowledge of tax imposition on cryptocurrency in India and to study the effect of demographic factors on investor's investment decisions, the factor they consider before taking the investment decisions and what is the impact of tax introduction on the investors and their investment decisions.

I. INTRODUCTION

Cryptocurrency is a digital asset which works on block chain system. Cryptocurrency stores the information of owner of each unit in a ledger and adds or deducts it according to the transactions. Cryptocurrencies are just like paper and coin currencies but in online mode. Cryptocurrency is decentralised which means it is not issued by a single person or authority like paper and coin currencies which are issued by banks. Cryptocurrency was first conceived in 1983 by David Chaum. These currencies are used in several ways like payments, transfers, investments, etc. Cryptocurrency stores the information of owner of each unit in a ledger and adds or deducts it according to the transactions.

In order to get the ownership of cryptocurrencies, a user has to create an address for which the user must choose a valid Private key and compute the address to that private key. The owner may choose any random private key for the creation. It is possible to public the address without hampering the privacy of private key. It is impossible to get the access of private key through the address. The private keys are such combinations which are extremely hard to guess and also there is a vast number of private keys.

To make transactions through bitcoin and cryptocurrencies, the user must know the private key and its corresponding digital sign. The network verifies the combination of private key and the signature and the private key is never revealed in this whole process.

Mining is a process of record keeping done through computer processing power. The work of miners is to keep the block chain complete, consistent and unalterable by grouping newly broadcast transactions into a block repeatedly.

INDIA AND CRYPTOCURRENCIES

The journey of cryptocurrencies started in 2008 this could also be called as Inception of cryptocurrencies. It started when a paper called "Bitcoin: A Peer-to-Peer Electronic Cash System" was published. When it comes to India, it took a little while to flourish and gain popularity. After investments in Cryptocurrencies took a spike in India, the Central Bank "Reserve Bank of India" issued a circular in 2013 order to warn the users of cryptocurrencies of the potential risks related to security related to the use of these virtual currencies. Thereafter too Reserve Bank of India issued several notices and orders regarding cryptocurrencies. One also directs banks to stop accepting and providing services to cryptocurrency holders.

INCOME TAX AND TDS

Cryptocurrencies will be taxed under Section 115BBH of Income Tax Act, 1961 according to which, any income from transfer of cryptocurrencies will be taxed at a rate of 30%. There will be no deductions of any expenditure apart from Cost of Acquisition. Also, it is not allowed to set off or carry forward losses against any income.

A new section is added in Income Tax Act 1961, which is section 194S. This section deals with the applicability of TDS on cryptocurrencies.

According to this section, the Deductor is any person who is responsible for paying any sum by way of consideration for the transfer of cryptocurrency. Whereas, the Deductee being a resident person to whom amount is payable. The rate of this tax is 1% of consideration when to deduct. This tax is deducted either at the time of payment or at the time of credit of the amount in the account of the resident whichever is earlier.

OBJECTIVES OF THE STUDY

The objectives of the study are:

1. To study the demographic factors of the investors who invest in cryptocurrencies.
2. To study the reasons why investors invest in cryptocurrencies.
3. To study the effect of tax introduction on investors preference towards cryptocurrencies.

DEMOGRAPHIC PROFILE OF THE RESPONDENTS

Demographic Factor	Frequency	No. of Respondents	Percentage
Gender	Female	49	46.67
	Male	56	53.34
Locality	Rural	32	30.47
	Urban	73	69.52
Age	18 – 25	61	58.09
	26 – 33	19	18.09
	34 – 41	11	10.47
	42 – 49	9	8.57
	50 or above	5	4.76
Income Group	Up to ₹ 2.5 lakhs	30	28.57
	₹ 2.5 lakhs - ₹ 5 lakhs	21	20
	₹ 5 lakhs - ₹ 7.5 lakhs	12	11.42
	₹ 7.5 lakhs - ₹ 10 lakhs	13	12.38
	₹ 10 lakhs - ₹ 12.5 lakhs	11	10.47
	₹ 12.5 lakhs - ₹ 15 lakhs	8	7.61
	Above ₹ 15 lakhs	10	9.52

II. METHODOLOGY

Source of Data:

Primary Data: The data for this primary data collection is collected using a questionnaire with some close ended questions which was circulated with the help of google forms.

Secondary Data: Information generated through World Wide Web (WWW), Some notices of Reserve Bank of India, Newspapers, Articles.

Objective 1: To study the demographic factors of the investors who invest in cryptocurrencies.

Hypothesis 1:

H0: There is no impact of gender on the investor's preference towards cryptocurrencies.

H1: There is an impact of gender on the investor's preference towards cryptocurrencies.

Hypothesis 2:

H0: There is no impact of locality on the investor's preference towards cryptocurrencies.

H1: There is an impact of locality on the investor's preference towards cryptocurrencies.

Hypothesis 3:

H0: There is no impact of age factor on the investor's preference towards cryptocurrencies.

H1: There is a significant impact of age factor on the investor's preference towards cryptocurrencies.

III. Graphical presentation

Following are the graphical presentations of the data collected.

Q1. Are you interested in investing in cryptocurrencies?

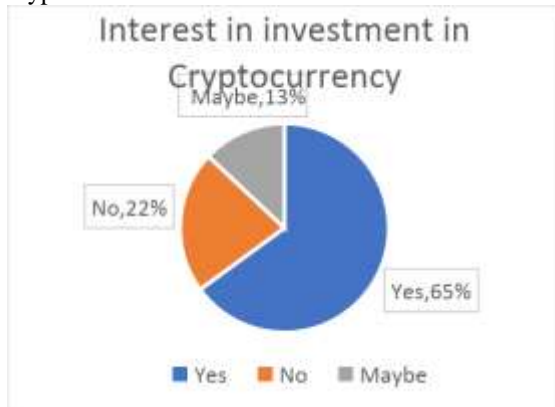


Fig.1

Q2. Are you currently investing in cryptocurrencies?

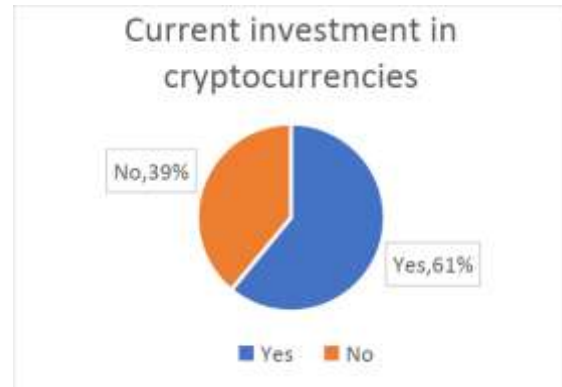


Fig.2

Q3. Which application do you use to invest in cryptocurrencies?

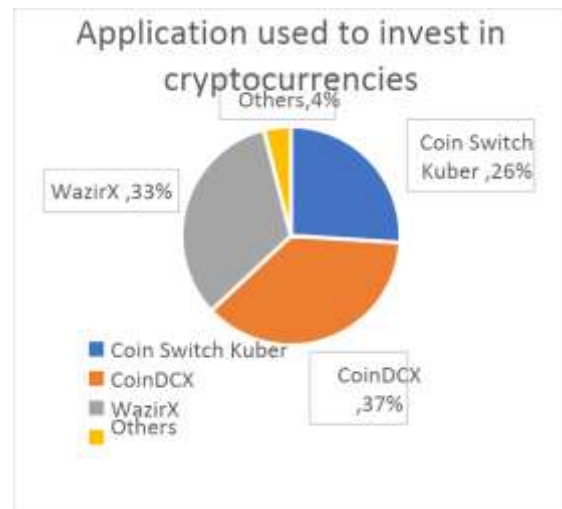


Fig. 3

Q4. How likely you will invest/re-invest in cryptocurrencies in the financial year 2022-23 (1 being lowest and 5 being highest)?



Fig. 4

Q5. On what basis do you decide on investing in any cryptocurrency?

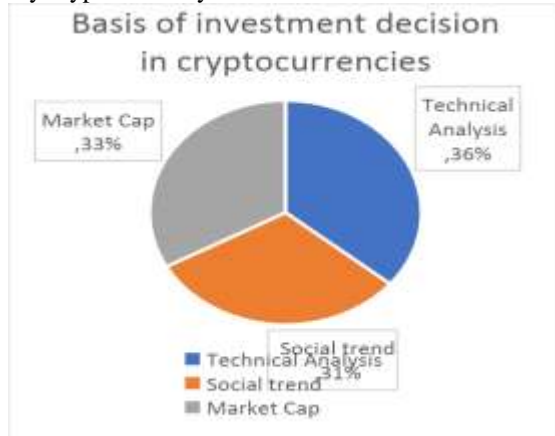


Fig. 5

Q6. Why do you invest in Cryptocurrency?

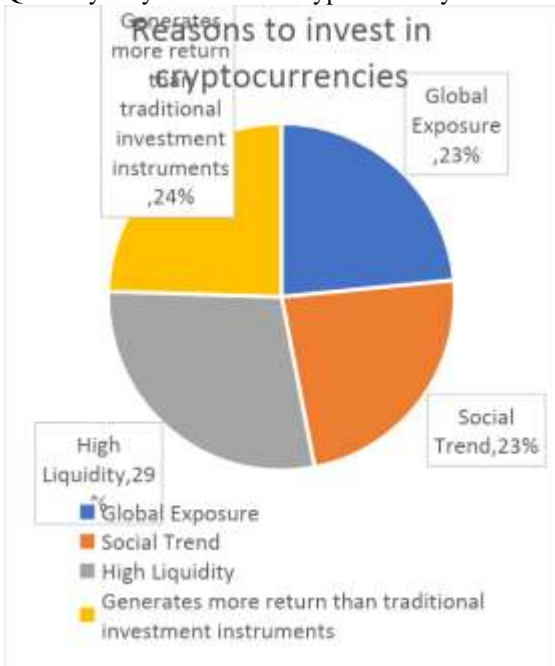


Fig. 6

Q7. Do you have a positive perspective regarding tax on cryptocurrency?

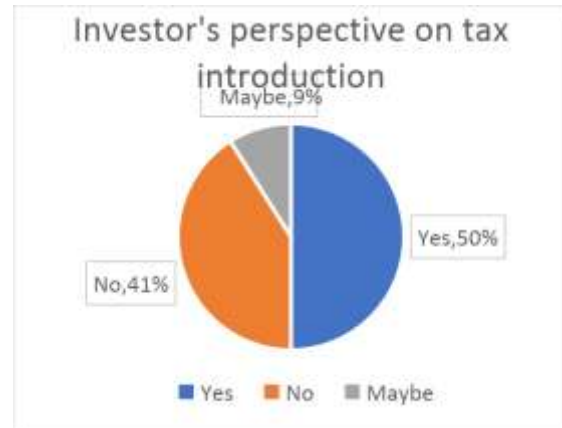


Fig. 7

IV. LITERATURE SURVEY

Spithoven, A. (2019) analysed cryptocurrencies for Self-governance and concluded that Bitcoin falls short in its self-governance ambitions. He also stated that in his analysis he found that cryptocurrency software protocols and blockchain technologies have qualities within permissioned peer-to-peer private or hybrid networks. But the trusted third-party regulation and supervision is needed.

Dr. Banwari, V. (2017) described Cryptocurrencies are considered to be profit generating investment in long run. Because it has various advantages like: Easily available, No mediator, Faster payments, Lower transaction fees and Privacy of information. However, there are some weaknesses of cryptocurrency in which, Security of data has been a major concern. Interestingly, though there is lack of clarity about legal status of cryptocurrency in India, the country may levy Goods and Services Tax on cryptocurrency trading.

DrAyaswarya, R.B., Ms. Varghese, R. (2021) defines how the banking sector is opposing to investment or transactions with cryptocurrencies. The banks do not earn much profits with the innovation of cryptocurrency as it is tilized and with moving times, people are shifting towards these currencies more and more.

Singh, P. (2022) shades light on the current scenario of how investors are taking their money out of cryptocurrencies like Bitcoin as a result of recent price falls, and how others believe that is too early to declare as dead end.

Agarwal, A. (2022) concluded that in terms of the aforementioned parameters that the

S&P 500 Index portfolio is a less risky prospect for investment as compared to Bitcoins in the US Stock Market.

Gupta, M., Dr. Bagga, T. (2017) in their paper concluded that cryptocurrency is still in an evolution phase as it has not gained much of the user base in India. Very less population of India aged between 18-24 is aware about cryptocurrency and even if they are aware of cryptocurrency, they restrain from using it. People said the main reason they do not want to use cryptocurrency is that Exchange rate is very volatile.

V. TEST RESULTS

Objective 1

- **Hypothesis 1:** Accepting the alternative hypothesis, we can say that gender do have an

impact on the investment decisions of an investor.

- **Hypothesis 2:** Accepting the alternative hypothesis which says that there is an impact of locality on the investors decision on whether to invest in cryptocurrencies or not.
- **Hypothesis 3:** Accepting the null hypothesis which says that there is no impact of age on the investing decisions of the investors.

Objective 2: Investors mostly invest in cryptocurrencies due to high liquidity. This shows that the investors are not that much tilted towards other benefits offered by cryptocurrencies.

Objective 3: Investors have a positive opinion towards the tax imposition on cryptocurrencies by the Government of India.

	Null Hypothesis	Calculated value of Chisquare	Tabulated value	Inference
Gender	There is no impact of gender on the investor's preference towards cryptocurrencies.	7.51	3.841 (at 5%)	Rejected
			6.635 (at 1%)	
Locality	There is no impact of locality on the investor's preference towards	17.02	3.841 (at 5%)	Rejected
			6.635 (at 1%)	
Age	There is no impact of age factor on the investor's preference towards cryptocurrencies	7.88	9.488 (at 5%)	Accepted
			13.277 (at 1%)	

VI. CONCLUSION

Cryptocurrencies are still in a developing stage. It is a very good opportunity for the public to learn more about it and utilize its features to get benefits of it. The technological part of the cryptocurrencies are getting advanced day-by-day and the entire cryptocurrency market is experiencing a great hype.

Cryptocurrencies are very safe as well as very risky. The system is designed so that everyone can get maximum security but there is a huge chance of threats and loopholes. These loopholes can cause heavy damage to the owners.

Keeping all this in mind, the Government of India took a step to demotivate the holders of such digital assets by imposing tax on it. Although this tax introduction is taken in a positive manner by the investors and they are considering re-investment.

The main reason for a lot of investors to invest in cryptocurrencies is the liquidity it offers. The cryptocurrencies market is still very unstable and volatile as the prices fluctuate with great margins.

The test results suggested that even in the changing times, there is still a major impact of gender and locality of the investor on their investment decisions. On the other hand there is no longer an impact of age on investors decision making.

As observed by the help of studies, now people are more inclined towards the benefits that the investment instrument is providing rather than just following the trend and they are also eager to understand and study the market through technical analysis and then make the investment decisions.

Although, there is a very high risk in cryptocurrencies market yet investors are ready to take up risk and prefer to do the research in their own manner to make final call on whether to invest or not.

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