



Somewhere in the Parallel Universe - Metaverse and Tax

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Back in 2020, amid the covid 19 pandemic, Greg Daniels's science fiction, 'UPLOAD' was aired on one of the OTT platforms. This comedy drama series showcased how humans in 2033 would be able to upload their consciousness into a virtual afterlife and continue to live in this virtual world forever. Little did we know, that in a matter of few years, the concept of virtual world would turn into a reality and be called 'METAVERSE'.

WHAT IS METAVERSE?

The internet that we use today is two dimensional in nature. Metaverse aims at transforming it from 2D to 3D. Rather than browsing the web content by clicking on the various tabs on the computer screen, Metaverse modifies it into 3 D objects. For instance: Online shopping websites on the internet let you add products to the cart by clicking on the tab 'Add to Cart', but in Metaverse, you get to walk through the virtual shop with the help of a headset that lets your digital avatar, handpick the virtually displayed 3D products and place it into the virtual cart. Thus, metaverse lets you immerse yourself into the virtual world.

WHAT CAN YOU EXPLORE IN THIS DIGITAL SECOND LIFE?

- 1. Digital Avatar:** We all have uploaded various display pictures of ourselves on Whatsapp, LinkedIn, Instagram and Facebook. These display pictures act as our identity on these various social networking platforms. Similarly, digital avatars play the role of our identity on the Metaverse. Unlike the display pictures, these digital avatars are three- dimensional and when you log into the digital virtual world, it steps with you, as a representation of you. As a user, you have the liberty to create an avatar of your choice that will imitate you and your body movements as a real person. .
- 2. Haptic Vests:** This is a wearable device that brings about touch-like sensations to the wearers in the metaverse and lets them feel the hugs of their dear ones, a punch from a friend or a pat on the back from their mentors. Hence, Metaverse without this device would just be digital avatars without any haptic feedback.
- 3. Non-fungible tokens (NFT):** The term fungible implies anything that is mutually interchangeable. Thus, NFTs are those units which are not interchangeable and have just one owner at a time. These NFTs include digital objects representing both tangible & intangible items, for instance: music, piece of art, GIFs, memes, designer sneakers, virtual land etc.

The creator of the art or content, are the owners of their respective NFTs and are empowered to monetise their work through them. Recently, Jack Dorsey the co-founder of Twitter sold his tweet as an NFT for an exorbitant price.

The ownership of these NFTs is secured using the blockchain technology. As an individual you can invest into these NFTs created by their owners and earn by reselling it at a higher price, and these earnings are subject to tax in India. However, unlike stocks the prices of NFTs are not based on technical or economic factors but are based on how much the other person is willing to pay for it. Thus, if no one wants to buy the NFTs that you wish to resell then you may not be able to resell it.

NFTs can also be used as an entry ticket to attend various concerts or events in the metaverse. India made its digital debut on the metaverse, with Daler Mehndi's concert, on our 73rd Republic Day which attracted audiences across the globe.



Image via :

<https://www.google.com/amp/s/www.outlookindia.com/art-entertainment/daler-mehndi-made-history-by-being-the-first-indian-performer-on-the-metaverse-news-47929/amp>

NFTs can be purchased from various NFT marketplaces in India, which include Juptier Meta, Beyondlife, Bollycoin, Colexion and many others.

4. Cryptocurrency: The Non- fungible Tokens cannot be bought using the Fiat money, one needs cryptocurrency to buy them. These cryptocurrencies can be bought through the crypto exchange like COINBASE. The cryptocurrencies so purchased can then be transferred and stored into a crypto wallet. These wallets shall then be connected to the NFT marketplace in order to purchase, collect and store various NFTs.

5. VR Headsets: In order to experience the 360 degree immersive experience in the metaverse, one needs to wear the VR headsets. These headsets will virtually drop the user into the virtual world and help them interact in the virtual environment.

The virtual world in the metaverse, not only provide for virtual real estate but also gives you an unbelievable experience of virtual shopping, meets, international trips, games and more. So, the next time your trip to Goa doesn't materialize, you know which option to opt for.

INCOME TAX AND METAVERSE

The Union Budget 2022-23 has provided for certain amendments in the Income Tax Act, 1961 with respect to transactions in the virtual digital world, which are as follows:

1. Sec 2(47A): As per the provisions of the newly inserted clause 47A of section 2 of the Income Tax Act, 1961, a virtual digital asset shall include :

(i) any information, code, number, token (not being an Indian currency or foreign currency) which is generated through cryptographic means or otherwise, by whatever name called which provide a digital representation of value exchanged with or without consideration, with the promise or representation of having inherent value or functions as a store of value or a unit of account including it's use in any financial transaction or investment, but not limited to investment scheme, and which can be transferred, stored or traded electronically, like the **cryptocurrencies**.

(ii) A **non-fungible token** or any other token of similar nature, by whatever name called.

(iii) Any **other digital asset**, which the Central government may notify in the Official Gazette.

2. Sec 115BBH: As per the provisions of the newly inserted section 115BBH, gains made from the sale of virtual digital assets will be taxed at the rate of 30%

For eg: An investor purchases virtual digital assets worth Rs. 90,000 and sells the same for Rs. 1,00,000, thereby generating a gain of Rs.10,000. Thus, he shall be liable to pay tax @30% on Rs. 10,000 i.e Rs. 3,000.

While computing the gains, no deduction of any expenditure is permitted, other than cost of acquisition.

Note: There is no clarification about the nature of virtual digital assets by the government. However, as per the provisions of sec 2(14) of the Income Tax Act, 1961, capital asset includes property of any kind which is held by a person, whether or not connected with his business or profession. Hence, virtual digital assets like the NFT shall be deemed to be capital assets and any gains arising on transfer of these assets shall be taxed under the head, 'Income from Capital Gains'. Virtual digital assets held for more than 36 months shall be considered as long term capital assets, else shall be termed as short term capital assets. No indexation of cost of acquisition has been permitted.

If, however, a person deals in such assets frequently and substantially then he shall be said to be trading in such assets and thus, income from sale of these assets shall be taxed under the head 'Income from Business & Profession'.

3. Set-off of & carry forward of losses: The losses from one virtual digital asset cannot be set off against gain from another, nor can it be set off against any other income computed under the Income Tax Act, 1961. Also, such losses shall not be allowed to be carried forward to the subsequent assessment year.

4. Sec194S: Transfer of virtual digital asset shall be subject to TDS @1% on the sum of transfer by a resident (w.e.f 01.07.22). For eg: An investor sells virtual digital assets at Rs. 8,000. Thus, when the investor receives the amount on transfer, he shall receive a net amount of

Rs.7,920 after deduction of the amount of TDS i.e Rs. 80.

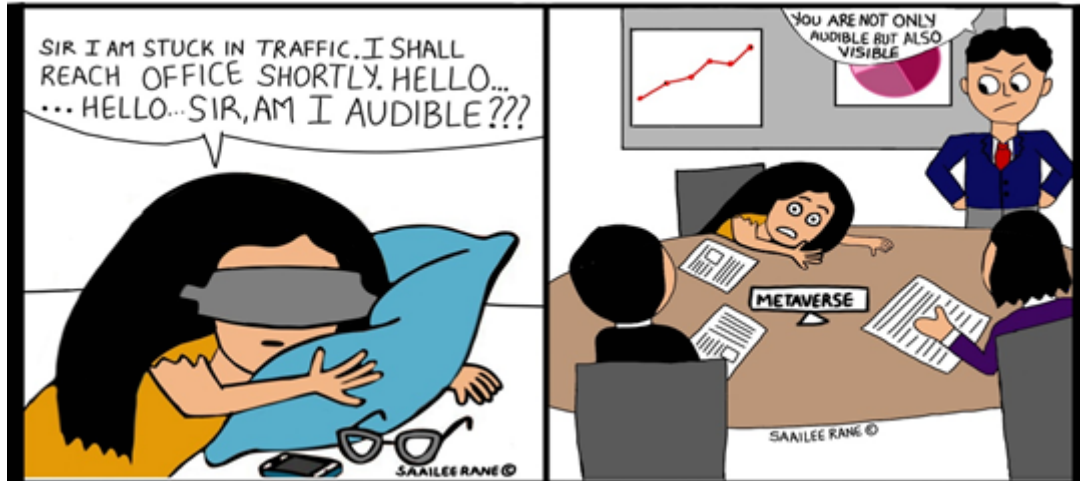
However, if the payment for such transfer is received in kind or partly in cash and partly in kind, where the amount of cash is not sufficient to meet the TDS liability, then the person responsible to make the payment shall ensure that the tax has been paid in respect of such consideration. Thus, the onus of deducting tax and depositing the same is on the buyer of the virtual digital asset.

5. Sec 56(2)(x): The provisions of sec 56(2)(x) shall be applied to transactions that include transfer of a specified capital asset, made without consideration or for an inadequate consideration exceeding the specified limit. Virtual digital assets have been included within the scope of specified capital asset by the Finance Act, 2022. Thus, when a person receives virtual digital assets as gifts i.e without consideration or for an inadequate consideration and it's value exceeds Rs. 50,000 it shall be taxable in the recipient's hand u/s 56(2)(x) under the head 'Income from other sources'.

The FMV of virtual digital assets shall be made in accordance with Rule 11UA.

CONCLUSION:

The word Metaverse has created quite a buzz on the internet. Many big tech companies have started investing into building the required technology to get a strong footing within this virtual world. Experts state that it will take a few more years for the metaverse to become a mainstream. Only time will decide, how long we will be willing to wear the headsets on our eyes and enjoy the immersion into the world of someone's imagination. Till then, lets breathe in some fresh air which we had missed for the past 2 years, as we let go off our masks.



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