International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

Tax Planning in the Era of Digital Investments: A Study on the Inclusion of Crypto, REITs, and International Funds in India

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ABSTRACT

The dimensions of the financial investment landscape in India are fast changing, marked by rapid digitization, globalization, and diversification of investment portfolios. With modern investment instruments like cryptocurrency, REITs, and internationally diversified mutual funds, investors are increasingly looking beyond traditional savings instruments for higher yield and global diversification. However, this evolution in investment behavior also comes with new complexities related to taxation and financial planning.

This research paper goes over the shifting character of tax planning in today's time of digital investments and how India's taxation framework accommodates these emerging asset classes. This study looks at how an individual can efficiently plan their taxes when it comes to investing in digital and international instruments within the current Tax Laws of India. It also draws on the taxation mechanisms introduced under the Finance Act 2022 for VDAs, pass-through structure of REITs governed under SEBI, and international funds treated as debt-oriented investments under the Income Tax Act.

Descriptive and analytical, the methodology relies on secondary data from government publications, financial reports, and academic literature. A comparison of the three asset classes of cryptocurrency, REITs, and international funds is done to explore their respective tax rates, benefits, and compliance requirements. The results indicate that while REITs and international funds enjoy structured tax regimes, crypto assets have been subject to rigid taxation with limited deductions and no loss offsets. This disparity in treatment presents challenges for the retail investor and a strong basis for simplification of tax policies of digital assets.

The conclusions drawn out of this research show that effective tax planning can significantly influence post-tax returns and investment performance. Certain strategic decisions, like long-term holding, reinvestment under eligible sections, and use of DTAA, can optimally ensure the outcomes of taxes. The study concludes that with proper awareness, transparent regulations, and consistent government policy, India can successfully integrate these emerging investment forms into its financial system without compromising on tax compliance.

This paper adds to the growing debate on aligning digital innovation with fiscal responsibility by underlining the fact that informed tax planning is not only about compliance but an integral part of sustainable financial growth in the digital age.

KEYWORDS: Tax Planning, Cryptocurrency, Real Estate Investment Trusts (REITs), International Mutual Funds, Digital Investments, Capital Gains, Taxation in India, Virtual Digital Assets, Portfolio Diversification

INTRODUCTION

Over the last couple of decades, the Indian financial atmosphere has completely altered due to the impetus provided by technology, globalization, and increasing investor participation. Traditional avenues of investment like fixed deposits, insurance policies, and provident funds are being supplemented by more digital and alternative assets. Online platforms and fintech innovations have essentially made access to financial products-from stock markets to global funds and even digital currencies-easier for every individual.

Of these, three major forms of digital investments that have struck the headlines are cryptocurrency, REITs, and International Mutual Funds. Each of them represents a new form of investment opportunity in India's journey of financial modernization. Cryptocurrency, often seen as the most disruptive financial innovation, enables peer-to-peer transactions without any central authority through blockchain technology. On the other hand, REITs have made the real estate market more transparent and accessible by allowing even small investors to participate in the income-earning possibility of commercial properties. Similarly, international mutual funds have opened opportunities for Indian investors in various global markets to spread their risk and earn returns that commensurate with growth on the international scene.

While these have indeed expanded the investment universe, they have also added a number of complexities in taxation and compliance. The Indian government and other regulatory authorities had to play catch-up, putting in place new laws, clarifying definitions, and ensuring that taxation on such assets is equitably imposed. The Finance Act 2022 marked that turning point when the government officially recognized Virtual Digital Assets and set a definite tax structure for cryptocurrency transactions. Similarly, efforts by SEBI in regulating REITs and mutual funds have helped in building trust and transparency in the investment environment.

Thus, the need for effective tax planning in these times of digital investments is becoming more crucial than ever. Investors not only have to understand where to invest but also how to optimize taxes while remaining fully compliant with the evolving regulatory system.

1.2 Problem Statement

The concept of tax planning has conventionally been associated with savings through deductions and exemptions under sections 80C, 80D, and 80G of the Income Tax Act. However, the emergence of digital and international investments has widened the base on which tax is paid, and traditional approaches are proving insufficient.

The introduction of new categories like cryptocurrencies and international funds brought along challenges relating to valuation, calculation, and reporting of tax. For instance, cryptocurrencies are taxed at a flat rate of 30% with no deduction or loss set-offs, which is much higher than for any other class of assets. This rigidity in the taxation policy, while putting up compliance, certainly discourages the small investors.

REITs, even with improved structuring, have several components of income, namely rent, dividend, and interest income, each of which is taxed differently. Similarly, international mutual funds are considered as debt-oriented funds for the purpose of taxation, even though they invest in foreign equities-a fact that confuses investors. Overlapping taxation laws, a general lack of awareness, and the rapidity of regulatory change have, in fact, made tax planning more complex.

Therefore, a clear problem statement would be: how to efficiently plan tax obligations for Indian investors while investing in emerging digital and global assets without violating any kind of tax law or falling into double taxation. This paper seeks to consider this issue and present views of some practical importance.

1.3 Objectives of the Study

The objectives of the study are as follows:

1. To analyze the present taxation framework applicable to cryptocurrency, REITs, and international funds in India.

2. The specific function of tax planning in ensuring maximum post-tax returns from such digital investments.

3. To assess the challenges faced by the investors in complying with the tax laws for emerging investment instruments.

4. To suggest measures and best practices for doing effective and compliant tax planning in the digital investment era.

1.4 Scope of the Study

Basically, it focuses on individual investors and professionals dealing in cryptocurrency, REITs, and international funds under the Indian taxation framework. It goes on to explain the rules, provisions, and guidelines applicable under the Income Tax Act, SEBI regulations, and Finance Acts from 2022 onwards.

The research doesn't include primary data collection; thus, it relies on publicly available information, policy reports, and academic literature to develop an understanding of the patterns of taxation and possible areas of planning.

1.5 Significance of the Study

The research is greatly important in the present and future of investment management in India. As financial markets increasingly become digital, investors expose themselves to new risks: tax inefficiencies and compliance errors. A well-informed tax planning approach therefore ensures that investors can reduce legally their tax burden, enhancing overall financial stability.

The present study gives a comprehensive view of the interaction between taxation, digital assets, and global investments. It helps to:

• Investors in making tax-efficient investment decisions.

• Financial advisors and planners in creating strategic plans for clients who are dealing with digital assets.

• Policy makers in identifying areas where clarity and reform are required.

• Researchers and academicians in expanding the knowledge base on taxation of emerging asset classes.

The findings of this study will bridge the gap between innovation in financial products and the existing taxation structure so that the transformation of India into a digital investment economy remains balanced and sustainable.

2. MATERIALS AND METHODS

2.1 Research Design

This research follows a **descriptive and analytical design**. It focuses on understanding the taxation framework and planning methods related to modern digital investment instruments such as cryptocurrency, Real Estate Investment Trusts (REITs), and international mutual funds in India.

The study aims to identify the relationship between digital investments and tax implications while exploring how investors can manage their tax liability within the scope of existing Indian laws.

A qualitative approach is used to analyze tax rules, government notifications, and financial guidelines, while a comparative approach helps highlight the differences in taxation between traditional and new-age investments.

2.2 Data Collection

The research is based entirely on **secondary data** gathered from:

- Official reports from the **Income Tax Department**, **SEBI**, and the **Ministry of Finance**.
- Publications and updates from financial institutions and investment bodies such as the **RBI**, **NSE**, and **AMFI**.
- News articles, financial magazines, and verified online sources discussing taxation of digital assets.
- Books and journals on taxation and investment planning in India.

The data has been organized and analyzed to present a clear picture of the taxation environment surrounding crypto assets, REITs, and international mutual funds.

2.3 Analytical Framework

The study uses a **comparative and interpretive analysis** to evaluate three emerging investment categories:

1. **Cryptocurrency and Virtual Digital Assets (VDA)**
2. **Real Estate Investment Trusts (REITs)**
3. **International Mutual Funds**

Each category is assessed on three main aspects:

- **Tax Structure:** Applicable tax rate, nature of income (capital gains, dividend, or business income), and exemptions.
- **Regulatory Framework:** The governing bodies, compliance norms, and legal recognition.
- **Tax Planning Opportunities:** Possible strategies investors can adopt to manage tax efficiency and compliance.

This framework provides a comprehensive understanding of how modern investments are taxed and how investors can integrate them into tax-efficient portfolios.

3. RESULTS AND DISCUSSION

3.1 Overview

Tax planning is an integral part of investment management. As India's economy gets increasingly digitized and connected with the rest of the world, investors are considering newer asset classes beyond traditional savings and equities. But each of these new investment avenues-cryptocurrency, REITs, and international mutual funds-has its specific taxation and compliance frameworks.

This section discusses their current status in India, tax implications, and practical tax planning approaches for individuals and institutions.

3.2 Cryptocurrency and Virtual Digital Assets (VDA)

3.2.1 Nature and Regulation

Cryptocurrency or Virtual Digital Assets (VDA) is an umbrella term assigned to Bitcoin, Ethereum, and other digital tokens employing blockchain technology for decentralized peer-to-peer transactions.

Although cryptocurrency is not considered legal tender in India, its trading, holding, and investment are legal under certain conditions, as regulated by the Income Tax Act and the Finance Act 2022.

The Government of India introduced a new taxation regime for all VDA transactions under Section 115BBH through the Union Budget 2022. This was aimed at bringing the digital asset class under the formal tax net and discouraging speculative trading without banning ownership.

3.2.2 Tax Provisions

1. Flat tax rate:

o All income from the transfer of VDAs - sale, exchange, or conversion - is taxed at 30% of profits.

o This rate applies irrespective of the investor's income slab.

2. No Deductions Allowed:

o Except for the cost of acquisition, no deduction such as transaction fees, mining costs, or the cost of internet is allowed.

3. No set-off or carry forward of losses:

o Losses from crypto trading cannot be adjusted against any other income, including other crypto gains.

4. TDS under Section 194S:

o A 1% TDS will be levied on payments above ₹10,000 in a year for the transfer of virtual digital assets.

5. Gifting of Crypto:

o Gifts of cryptocurrencies are taxable under the head "Income from Other Sources" if their value exceeds ₹50,000.

3.2.3 Compliance and Reporting

• As per the scheme, the taxpayer has to disclose their VDA transactions in the Income Tax Return Form under the "Schedule VDA."

• Exchanges are required to deduct TDS and keep records of all transactions for compliance with the Income Tax Department.

3.2.4 Tax Planning Opportunities

• Long-Term Holding Strategy: While the flat 30% tax applies to all gains, investors can benefit from holding crypto for longer durations, allowing market appreciation to offset tax costs.

• Diversified Portfolio Allocation: Investors should treat crypto as a small portion of their portfolio, say 5–10%, in order to balance volatility with tax exposure.

• Compliance Accuracy: Detailed records of trades and TDS avoid scrutiny or penalties.

3.2.5 Discussion

Although the government has brought crypto under taxation, the lack of a clear regulatory authority like SEBI or RBI has made compliance and valuation complex.

Investors are burdened with high tax rates, with no indexation and unclear provisions on cross-border transfers of digital tokens. Still, taxation has also legitimized crypto as an asset class, bringing in long-term accountability and transparency.

3.3 Real Estate Investment Trusts (REITs)

3.3.1 Concept and Structure

REITs are investment vehicles that pool funds from investors to invest in income-generating real estate, such as commercial office spaces, malls, or infrastructure projects.

The bottom line: They allow retail investors to be exposed to the real estate market without actually owning property.

In India, REITs are regulated by the Securities and Exchange Board of India under the SEBI (REIT) Regulations, 2014. Major Indian REITs include Embassy REIT, Mindspace Business Parks REIT, and Brookfield India REIT.

3.3.2 Taxation Structure

REITs have a "pass-through" structure whereby some incomes are taxed just once at the investor level, without double taxation.

Component<TKey Treatment

Interest Income Taxed at investor’s applicable slab rate.

Dividend Income: Tax-free if SPV has not opted for the new corporate tax regime u/s 115BAA.

Rental Income Taxable at investor’s slab rate.

Capital Gains on Sale of REIT Units - Short-Term (held < 36 months): 15% tax.

- Long-Term: (held ≥ 36 months) 10% tax above ₹1 lakh.

Tax is exempted on certain incomes to the REIT itself, but the distribution of income to unit holders carries the burden of tax.

3.3.3 Tax planning opportunities

1. Long-Term Holding for Lower Tax:

Holding REIT units for over 3 years can entitle an investor to lower long-term capital gains tax of 10%.

2. Dividend Exemptions:

Dividend income from REITs will be tax-free for investors if the SPV has not opted for concessional tax.

3. REITs under Section 54EC:

The gains from the sale of REIT units can be reinvested in specific bonds - like NHAI, REC - within 6 months to claim exemption up to ₹50 lakh.

4. Tax-Efficient Portfolio Inclusion:

REITs offer a mix of regular income and long-term capital appreciation and are particularly well-suited for long-term investors who want diversification and tax efficiency.

3.3.4 Discussion

The Indian REIT market is at a nascent stage but offers a far more transparent and regulated real estate exposure to investors. Compared to physical property, REITs are more liquid, tax-efficient, and easier to manage. However, investors must monitor the dividend policy of REIT sponsors, as the choice of corporate tax regime affects dividend taxation.

REITs also attract foreign investors with their stable tax structure and regular income potential, adding to the formalization of India's real estate market.

3.4 International Mutual Funds

3.4.1 Concept and Relevance

International funds invest in the equity or debt instruments of companies listed outside India. They allow Indian investors to participate in global markets, like the U.S., Europe, or emerging economies, through Indian fund houses.

With globalization and fintech platforms, these funds have become an integral part of diversified portfolios. However, the taxation thereof differs from that of domestic equity funds.

3.4.2 Tax Treatment in India

International mutual funds will be classified as debt-oriented funds for tax purposes because these funds do not invest predominantly in Indian equities.

Holding Period\tNature of Gain\tTax Rate

< 36 months Short-Term Capital Gain (STCG) Added to income and taxed as per slab

≥ 36 months Long-Term Capital Gain (LTCG) 20% with indexation benefit

Other points:

• Dividend Income is to be added to the total income and taxed at applicable slab rate.

- Foreign Tax Credit (FTC): In case of payment of taxes abroad, credit can be claimed by the investor under DTAA.
- TCS: As per the Liberalized Remittance Scheme (LRS), TCS at 20% (refundable on filing return) applies if remittances exceed ₹7 lakh.

3.4.3 Tax Planning Opportunities

1. Long-term holding with indexation:

International funds held for more than 3 years offer indexation benefits, reducing the taxable capital gains.

2. DTAA Benefits:

Investors can avoid double taxation by claiming credits for taxes paid abroad.

3. Systematic Investment Plans:

Regular SIPs in global funds spread the investment risk and hence allow efficient tax planning under the slab structure.

4. Tax-Efficient Fund Selection:

Investment in feeder funds managed by Indian AMCs reduces complexity in tax filing and ensures compliance under Indian laws.

3.4.4 Discussion

International funds have become popular for global diversification and currency appreciation benefits. However, investors need to manage compliance under FEMA, LRS, and taxation laws carefully. Tax planning is the prime factor that helps in maximizing post-tax returns through proper timing, record maintenance, and DTAA claims.

3.5 Comparative Discussion: Tax Planning Across Digital Investments

Investment Type Tax Rate Holding Period for LTCG Deductions Ideal Planning Strategy

Cryptocurrency\t30% flat\tNot applicable\tOnly cost of acquisition\tMaintain records, avoid frequent trading

REITs 10–15% on capital gains 36 months 54EC reinvestment Long-term holding, dividend monitoring

International Funds 20% w.i 36 months INDEXATION & DTAA Hold for long term, claim FTC benefits

This comparison demonstrates that either REITs or international funds would be more tax-efficient to invest in than cryptocurrency.

But crypto does provide high potential returns, though with a higher compliance and taxation burden.

3.6 Key Findings

1. Tax awareness among investors remains very low, especially for digital assets and cross-border investments.
2. The worst taxation in crypto has no deductions, nor loss adjustments, which makes speculative trading unattractive.
3. REITs offer balanced taxation and regular income, suitable for moderate-risk investors.
4. International funds combine global exposure with tax efficiency, especially if held long.
5. The need for policy clarity and investor education is of essence to ensure compliance and optimization of taxes.

4. CONCLUSION

The era of digital investment has opened new avenues for the creation of wealth and diversification of portfolios in India. This includes asset classes such as cryptocurrencies, REITs, and international mutual funds, which are indicative of the growing preferences of Indian investors toward a technology-savvy, globally aware, and return-oriented profile. But this evolution has also introduced complexities in tax planning, compliance, and financial literacy.

The research has indicated that while the government has taken progressive steps towards formalizing taxation for new asset classes, there are some areas where its implementation and awareness need improvement. Cryptocurrencies will be taxed uniformly at 30% without any deductions-a given barrier to short-term traders but an act of legitimacy to the sector. REITs are based on a pass-through mechanism which ensures transparency and gives investors greater protection, thus aligning with global norms of real estate investment. On the other hand, international mutual funds bridge the gap between global exposure and domestic accessibility, but their tax planning needs to be done carefully under India's DTAA.

Income classification, applicable rates, and available exemptions must be well understood by an investor for effective tax planning. Long-term holding, maintenance of records, and proper reporting constitute the key to compliance for foreign and digital assets. Financial advisers should play a bigger role in educating retail investors about emerging instruments and tax-efficient strategies.

In short, digital investments are reshaping the face of India's financial system. The future of tax planning in India will depend on a proper mix of regulatory clarity, investor awareness, and technology adoption. Structured tax policies, responsible investment behavior, and improved financial literacy hold the key to making sure that innovation in the investment space continues to go hand in hand with transparency and fiscal discipline.

ACKNOWLEDGEMENTS

The author is grateful to the faculty members and mentors who were of immense help by providing the necessary guidance and motivation during the preparation of this research paper. A debt of gratitude is owed to the officials of the Income Tax Department, SEBI, and Ministry of Finance for making available public resources that facilitated a better understanding of the taxation framework of emerging asset classes.

He also acknowledges the role of digital platforms, financial journals, and official publications that had served as reliable sources for data and reference materials. Finally, words of thanks go out to friends and peers for their much-needed encouragement throughout the research and writing process.

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