



Jus Corpus Law Journal

Open Access Law Journal – Copyright © 2023 – ISSN 2582-7820
Editor-in-Chief – Prof. (Dr.) Rhishikesh Dave; Publisher – Ayush Pandey

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Induction of E-Rupee: Impact, Assessment & Future of the Indian Financial System

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Received 18 March 2023; *Accepted* 06 April 2023; *Published* 11 April 2023

A digital rupee is a virtual form of legal money. The future of money is moving towards security, encryption, centralization, and transparency with the induction of the e-rupee, proclaimed to be the fiat currency. It is the way to combat black money and the bustles of the economy and ensure a world-class payment system. While the country is unsure what exactly the digital rupee is and how it functions, this paper attempts to explain the ongoing buzz around the term 'e-rupee' and clarify the confusion with the cryptocurrency as the private currency, while the digital rupee is being regulated by the RBI, hence the name 'CBDC' (Central Bank Digital Currency). Also, the UPI is the platform to pay money, where the digital rupee itself is the authorized currency. This paper justifies that digital currency is just the virtual form of physical currency; there is no big difference between them and they are subject to the same limitations and rules under tax implications and banking limits. This paper elucidates how the e-rupee function in wholesale and retail transactions and suggest analyzing the practical application in the pilot phase and bringing in recommended changes. Keywords: digital rupee, currency, CBDC, cryptocurrency, UPI, RBI, transactions, pilot phase.

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INTRODUCTION

Gone are those days of holding intricate papers, yet filled with great value in our hands. Yes, you no longer need to worry about concealing the *paper money in a safe place* to protect them from fraud, theft, and physical damage as your money will go invisible now!

Indeed, you couldn't see either those rupee coins engraved with national emblems or those paper notes printed with the picture of our Father of the Nation. It is not because we are approaching insolvency and an economic crisis, but rather for much growth and a better regulatory system. India is all set to launch the digital rupee, also known as CBDC (Central Bank Digital Currency), which is intangible, secure, transparent, easily accessible, a time saver, and regulated by the prominent bank in the country, the Reserve Bank of India (RBI). On December 1, 2022, the RBI announced the pilot phase to evaluate the practical functioning of the e-Rupee across four cities: Mumbai, New Delhi, Bangalore, and Bhubaneshwar.¹

The new generation of the 'financial system' in the country is now apparent with the induction of the e-Rupee. The emerging technology is seeking changes in the incumbent system. The emergence of the digital rupee is also a result of technological advancement and augmenting change in the virtual world. The digital rupee is represented by tokens of the same denomination as a physical currency, which are regulated by the central bank of India. The digital rupee itself is a form of currency that is backed by the faith and trust of the government, unlike cryptocurrencies, which are dynamic and decentralized². This paper attempts to elucidate the concept of 'the E-Rupee', its functioning, and its impact on the Indian Financial System in the digital realm. This paper mainly focuses on the differentiation of digital currency and cryptocurrency based on taxation, assessment of the transaction, and other factors. It also explains the key difference between UPI and e-Rupee.

¹ Anulekha Ray, 'Digital Rupee: How is RBI retail e-Rupee different from UPI, NEFT, RTGS?' (*The Economic Times*, 16 December 2022) <<https://m.economictimes.com/wealth/save/digital-rupee-how-is-rbi-cbdc-retail-e-rupee-is-different-from-upi-neft-rtgs/articleshow/96269789.cms>> accessed 20 February 2023

² Kunal Varma and Aashika Jain, 'What Is Digital Rupee? How Is It Different From Cryptocurrency?' (*Forbes Advisor*, 22 September 2022) <<https://www.forbes.com/advisor/in/investing/digital-currency-in-india/>> accessed 20 February 2023

EVOLUTION IN MODE OF MONEY

Money is part of our daily lives and plays a key role in buying, selling, and other general transactions. Money is the consideration of a product or service that has a certain value. It all started with the *barter system* where goods and services of equal value are exchanged between two or more parties as a part of the consideration when there is no concept of money. Then coins, paper money, and currency of physical value with authorized denominations have ruled the financial system. Now that we have seen the UPI, the digital transfer system where you go for a quick scan to pay off. The future of money will be the e-rupee, which is a virtual form of physical currency. Money has modified itself into many forms for the time being. The recent change is astonishing, boosting the economy, and a tool to erase fraud and money laundering across the country and maintain transparency in the system.

WHAT IS CBDC OR E-RUPEE PRECISELY

The CBDC, which is known as the Central Bank The digital rupee is the virtual form of money that is stored in a digital wallet that is regulated by the RBI, and the transactions run on blockchain technology, which makes the technique more interesting because every transaction is recorded in the RBI ledger, which makes it an easy task for the authority to keep track of. The e-Rupee, the digital token, has the same denominations as the physical currency. For example, if you want to buy a Chips packet, instead of giving cash 20 rupees, you can now transfer 20 digital tokens that look similar but are intangible, through quick scanning of the other person's QR code. There are two kinds of CBDR namely, CBDR-W and CBDR-R.³ The CBDR-W is the digital rupee for wholesalers, who regulate the sale and purchase transactions of businesses, banks, and NBFCs, which are generally large transactions. The CBDR-R, on the other hand, is the retailer's digital rupee, which is used in daily transactions between people or merchants.

³ 'Central Bank Digital Currency (CBDC)' (Corporate Finance Institute, 20 January 2023)
<<https://corporatefinanceinstitute.com/resources/cryptocurrency/central-bank-digital-currency-cbdc/>>
accessed 15 February 2023

THE E-RUPEE, CRYPTOCURRENCY AND 'UPI'

The e-Rupee is the legal tender regulated by the Reserve Bank of India (RBI) whereas cryptocurrency is the private currency that is dynamic and decentralized, although it runs on the same blockchain technology. The cryptocurrencies like Bitcoin, Ethereum, etc. are valued assets. These coins are earned through mining (solving the toughest mathematical problems), but the digital rupee is your very own cash in virtual form⁴. However, the UPI apps like Paytm, are the platforms to pay the amount for cashless and easy payment where the banks are the third parties. In the digital rupee, the transaction is the end to end encrypted and ensures transparency.

WHY CBDC? ITS IMPACT AND ASSESSMENT: SUBJECTING LEGAL PROVISIONS

The CBDC, or digital rupee, is a hot issue in the economic industry. It appears that there is a great deal of misunderstanding regarding its operation and evaluation. CBDC is the virtual form of your cash and makes a big difference to the government and the financial system. The digital rupee would be the most powerful tool in monetary policy. The prime goal of the government in introducing the e-Rupee to the country is to foster financial inclusion in a country where many people still do not have bank accounts. Since the branch of CBDC for retail is token-based (CBDC-R), the user need not have an account.

What are the pros of an e-Rupee system?

- Quality of instant Transactions in Business;
- Ensuring a Transparent Environment;
- Stringent and high-Security System;
- Waiving off the Printing Costs;
- Foster the economy of the country;
- Demonstrated World Class Payment System;

⁴ Prabhjote Gill, 'Taxes, GST, and the digital rupee - Crypto policy in India is going through a big overhaul' (*Business Insider*, 11 February 2022) <<https://www.businessinsider.in/cryptocurrency/news/taxes-gst-and-the-digital-rupee-crypto-policy-in-india-is-going-through-a-big-overhaul/slidelist/89499051.cms>> accessed 20 February 2023

- Less Risk in Settlements;
- Minimal Operational and Transaction Costs.

ASSESSMENT OF E-RUPEE AND LEGAL PROVISIONS

The digital rupee is not only a transparent system to combat black money but also ensures the smooth running of the tax system, as everything is monitored and one cannot escape if the instantaneously recommended policies and framework concerning CBDC are implemented to their best. The assessment of the digital rupee is made just as it is for cash. There has been no change presented in such a method to date; moreover, it is evident to see that the transparent system in the digital rupee system would keep track of transactions and make the taxpayer liable for every transaction⁵.

“There is no difference between paper currency and digital currency.” The income tax department has got certain limits for cash payments, like beyond a certain limit, you have to give a PAN number; the same rules will apply in the case of CBDC because both are currencies⁶.

As per the norms of SBI, users of digital rupees are allowed to hold up to Rs 1 lakh in their wallets. Users can load or unload up to Rs. 25,000 per day⁷. The restrictions on cash transactions of Rs. 2 lakhs or more under Section 269 of the Income Tax Act of 1961 are also applicable to the digital rupee, where any person who transfers the digital token from the wallet *is not permitted to transfer 2 lakh tokens*, which are the same value as 2 lakh rupees of paper money⁸. The digital rupee is subject to the same rules as cash, and monitoring and binding the taxpayer will now be a cakewalk for the authorities. The income tax rules on cash payment limits would apply to the

⁵ Peterson K Ozili, ‘Central bank digital currency in India: the case for a digital rupee’ (2022) SSRN <<https://ssrn.com/abstract=4238138>> accessed 20 February 2023

⁶ Anulekha Ray, ‘Digital Rupee: How is RBI retail e-Rupee different from UPI, NEFT, RTGS?’ (*The Economic Times*, 16 December 2022) <<https://m.economictimes.com/wealth/save/digital-rupee-how-is-rbi-cbdc-retail-e-rupee-is-different-from-upi-neft-rtgs/articleshow/96269789.cms>> accessed 20 February 2023

⁷ ‘Digital Rupee: How SBI customers can load e-Rupee into wallets and make payments’ (*The Economic Times*, 15 December 2022) <<https://m.economictimes.com/wealth/save/digital-rupee-how-sbi-customers-can-load-e-rupee-into-wallets-and-make-payments/digital-rupee-is-here/slideshow/96254305.cms>> accessed 20 February 2023

⁸ R S Kalra, ‘Restrictions on Cash Transactions of Rs. 2 Lacs or More under Income Tax’ (*Taxguru*, 13 June 2022) <<https://taxguru.in/income-tax/restrictions-cash-transactions-rs-2-lacs-income-tax.html>> accessed 20 February 2023

digital rupee as well. While the cryptocurrencies are subject to a 30% tax on the assets from the earned profit and 1% TDS on every transaction, Hence, it is understood that now the taxation provisions are also applicable to the digital rupee, just as they are to cash.

The best way to state that the digital rupee is no different from cash is the fact that the e-Rupee is the intangible form of cash, and the robust system facilitates a safe, secure, and invisible mode of transaction. The intangible and digital token you transfer in a transaction is sent to the preferred receiver with the help of blockchain technology. Hence, it's the same thing whether you give a 20-rupee note to buy a pen or transfer 20 tokens for the same, and the interesting part is that you had to pay the same amount of GST as you do when you make a payment through cash or other digital payment methods.

This system, which came as a surprise, would bring a revolution to the financial system. The refugee loan system in Finland is the best example of how digital money technology would make you accountable and ensure transparency without human efforts. *Master Card* provided to the refugees is monitored by the blockchain, and they are evaluated based on their *credit score* where the subsidy percentage could be decided automatically. In the same way, India can obligate tax liabilities and combat money laundering by monitoring the digital wallet of the individual and the transactions that are recorded on the ledger. As India is aiming to foster financial inclusion and made the cradle budget of the year, the research phase seems to be succeeding in bringing the *e-Rupee* holistically.

CONCLUSION - THE PREDICTING FUTURE OF MONEY

The introduction of the digital rupee not only caused chaos, but also piqued people's interest in learning more about digital currencies, their functions, and their limitations. It is noted that physical currency and the e-Rupee are the same, yet the objective behind the *introduction of the e-Rupee is not to replace paper money*. This system makes financial transactions more efficient and transparent, boosting the economy and portraying India as a country with a world-class payment system. However, more suggestions and changes need to be brought in based on the

observations made in the pilot phase because not every person in the country is aware they possess digital literacy, and there is also a risk of fraud.

There is an immediate need to bring in specific binding laws and regulations on the tax implications of CBDC transactions as the usage of digital currency becomes more prevalent. The induction of the digital rupee would benefit the government and the public in many ways, but it requires awareness to be effective. India is all set to bring in CBDC holistically to foster financial inclusion and combat fraud, money laundering, and embezzlement. However, it shall work on the regulation and robust monitoring mechanisms of the day-to-day transactions. The costs that may be saved from the print, storage, and transport of paper money shall go toward research and development for security authentication, mechanisms for regular audit, and laying down specific tax obligations for the user that promote a fair and transparent taxation system. The RBI shall work closely with tax experts and other financial companies to provide the specific law and guidelines based on the present policies drafted in the report in context to the concept and overview of CBDC.