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# INVESTOR BEHAVIOUR, SOCIAL MEDIA INFLUENCE, AND CRYPTO TAX NON-COMPLIANCE

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Vidushi Singh Vihan<sup>1</sup> & Dr. Afreen Almas<sup>2</sup>

## I. ABSTRACT

*This research examines the complex relationship between investor behaviour, social media influence, and crypto tax non-compliance within the evolving Indian regulatory framework governing virtual digital assets (VDAs). The rapid expansion of cryptocurrency participation in India, driven primarily by retail investors and digital trading platforms, has created significant compliance challenges for tax authorities despite the introduction of a specialised taxation regime under the Finance Act, 2022. The study analyses how behavioural finance factors such as herd mentality, overconfidence bias, loss aversion, and mental accounting shape investor decision-making patterns in highly volatile crypto markets and indirectly contribute to under-reporting or misreporting of taxable gains. The research further explores the role of social media ecosystems and influencers in constructing informal narratives that normalize speculative trading, downplay regulatory risks, and foster misconceptions regarding tax obligations. Algorithm-driven content amplification, targeted digital persuasion, and monetized influencer networks are shown to significantly affect investor perceptions of compliance costs and detection probabilities. The study situates these behavioural and technological dynamics within India's broader legal architecture, including provisions of the Income-tax Act, 1961, the Prevention of Money Laundering Act, 2002, SEBI regulatory initiatives, and intermediary liability norms under information technology law.*

## II. KEYWORDS

Virtual Digital Assets (VDAs), Crypto Taxation, Investor Behavioral Biases, Social Media Influence, Tax Non-Compliance

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<sup>1</sup> PhD Scholar, Sardar Patel Subharti Institute of Law, Swami Vivekanand Subharti University (India). Email: vidushivihan@gmail.com

<sup>2</sup> Assistant Professor, Sardar Patel Subharti Institute of Law, Swami Vivekanand Subharti University, Meerut (India).

### III. INTRODUCTION

#### A. Background of Study

Indian participation in crypto and other virtual digital assets has shifted from a small speculative niche to a mass retail practice across age groups and cities, including tier 2 and tier 3 centres. Recent estimates suggest that around 97.5 million Indians, roughly 7.1 percent of the population, now own some form of cryptocurrency, which place India among the largest virtual digital asset markets in the world and intensifies concerns about investor behaviour, social media influence and crypto tax non-compliance in the domestic legal order.<sup>3</sup>

The Union government responded to this rapid scale of activity by inserting a dedicated virtual digital asset taxation framework into the Income Tax Act, 1961 through the Finance Act, 2022, which introduced the statutory definition of “virtual digital asset” in section 2(47A), a flat 30 percent tax on income from VDA transfers in section 115BBH, and a one percent tax deducted at source on consideration for VDA transfers in section 194S, intended to both raise revenue and create an auditable trail for enforcement of tax compliance.<sup>4</sup>

In parallel, India gradually embedded virtual digital asset activity in its anti money laundering architecture, and through a notification issued on 7 March 2023 under section 2(1)(sa) of the Prevention of Money Laundering Act, 2002, the central government designated exchange between VDAs and fiat, VDA to VDA exchange, transfer, safekeeping and related financial services as covered activities, thereby converting VDA service providers into reporting entities that must perform customer due diligence,

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<sup>3</sup> Triple A, Cryptocurrency Ownership Data: India, TRIPLE A, <https://www.triple-a.io/cryptocurrency-data/india> (last visited Feb. 14, 2026).

<sup>4</sup> The Finance Bill, 2022, Bill No. 18 of 2022, INDIA BUDGET, [https://www.indiabudget.gov.in/budget2022-23/doc/Finance\\_Bill.pdf](https://www.indiabudget.gov.in/budget2022-23/doc/Finance_Bill.pdf) (last visited Feb. 14, 2026).

maintain records, and furnish information to the Financial Intelligence Unit, which also interacts in practice with the detection of crypto tax non-compliance.<sup>5</sup>

## **B. Research Questions**

1. How do behavioural finance factors, including herd behaviour, overconfidence bias, and loss aversion, influence retail investor decision-making in virtual digital asset markets and contribute to patterns of crypto tax non-compliance in India?
2. To what extent does social media influence, particularly through finfluencers and algorithm-driven digital platforms, shape investor perceptions regarding crypto risk, regulation, and tax reporting obligations?
3. How effective is the existing Indian legal and regulatory framework, including the Income-tax Act, 1961 VDA taxation provisions, PMLA reporting obligations, and SEBI regulatory initiatives, in detecting and preventing crypto tax non-compliance?
4. What lessons can be drawn from international transparency mechanisms such as the OECD Crypto-Asset Reporting Framework and comparative regulatory models to strengthen India's crypto tax enforcement architecture?

## **C. Research Objectives**

1. To examine the behavioural dimensions of crypto investment, including cognitive biases and decision-making patterns, and analyse their impact on tax compliance behaviour among virtual digital asset investors in India.
2. To critically evaluate the influence of social media platforms, finfluencers, and algorithm-driven digital persuasion on investor awareness, risk perception, and understanding of crypto taxation obligations.

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<sup>5</sup> Notification S.O. 1072(E), Ministry of Finance, Dep't of Revenue, Gazette of India, Mar. 7, 2023, <https://egazette.gov.in/WriteReadData/2023/244184.pdf> (last visited Feb. 14, 2026).

3. To analyse the adequacy and effectiveness of the existing Indian legal and regulatory framework governing virtual digital assets, particularly provisions under the Income-tax Act, 1961, the Prevention of Money Laundering Act, 2002, and related regulatory guidelines, in addressing crypto tax non-compliance.
4. To assess international regulatory and reporting models, including global tax transparency initiatives, in order to propose policy reforms aimed at strengthening compliance mechanisms and enforcement strategies in India's crypto taxation regime.

#### **D. Research Methodology**

This study adopts a doctrinal legal research methodology, relying primarily on the analysis, interpretation, and synthesis of authoritative legal sources governing virtual digital assets and crypto tax compliance in India. The research systematically examines the relevant statutory framework under the Income-tax Act, 1961 (including the VDA definition and taxation provisions), the Prevention of Money Laundering Act, 2002 and allied rules, along with applicable regulatory materials such as notifications, circulars, guidelines, consultation papers, and compliance advisories issued by competent authorities. Judicial precedents that shape the legality, regulatory treatment, and enforceability of obligations in the crypto ecosystem are analysed to determine the prevailing legal position and doctrinal consistency.

### **IV. CONCEPTUAL AND THEORETICAL FRAMEWORK**

#### **A. Key Concepts and Definitions**

Virtual digital assets in Indian tax law sit at the centre of this study because they trigger specific rules on crypto tax reporting and non-compliance. Section 2(47A) of the Income-tax Act defines a virtual digital asset as any information, code, number or token, not being Indian or foreign currency, generated through cryptographic or other means, that represents value and can transfer or store it digitally. This definition covers

cryptocurrencies, non-fungible tokens and similar instruments, and it fixes the legal object around which investor behaviour and tax duties arise.<sup>6</sup>

Global policy bodies use closely related but not identical terminology. The Financial Action Task Force describes a virtual asset as any digital representation of value that one can digitally trade or transfer or use for payment, and it places such assets and their service providers inside the anti-money laundering and counter-terrorist finance regime. This broader notion shapes how regulators view anonymity, cross border flows and compliance incentives, and therefore it influences how national authorities perceive risks of crypto tax non-compliance in tandem with laundering risks.<sup>7</sup>

Investor behaviour in this paper refers to how real people, not idealised rational agents, decide whether to buy, hold or sell crypto, and whether to declare or conceal the resulting income. Behavioural finance draws heavily on prospect theory, where Kahneman and Tversky show that individuals weigh losses more than equivalent gains and often rely on heuristics when they face risk. This lens helps to explain why many small investors chase quick crypto profits during bull runs, hold losing positions for too long, or understate taxable gains when they fear a painful tax bill, even when the legal rules look clear on paper.

## **B. Behavioural Finance Theories and Crypto Investment**

Prospect theory explains much of the wild risk that small investors show in crypto markets. Kahneman and Tversky show that people evaluate outcomes as gains and losses around a reference point, and that they feel losses more sharply than equal gains.<sup>8</sup> This loss aversion pushes many Indian traders to hold losing tokens for too long, refuse to realise a loss before year end, and at the same time quickly book short term gains in a

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<sup>6</sup> Byomkesh Panda, Virtual Digital Assets under Direct Taxation, CHARTERED SECRETARY, Apr. 2025, <https://www.icsi.edu/media/webmodules/CSJ/April-2025/12.pdf> (last visited Feb. 14, 2026).

<sup>7</sup> Fin. Action Task Force, Virtual Assets (Crypto Assets), FATF, <https://www.fatf-gafi.org/en/topics/virtual-assets.html> (last visited Feb. 14, 2026).

<sup>8</sup> Daniel Kahneman & Amos Tversky, Prospect Theory: An Analysis of Decision under Risk, 47 *Econometrica* 263 (1979), [https://web.mit.edu/curhan/www/docs/Articles/15341\\_Readings/Behavioral\\_Decision\\_Theory/Kahneman\\_Tversky\\_1979\\_Prospect\\_theory.pdf](https://web.mit.edu/curhan/www/docs/Articles/15341_Readings/Behavioral_Decision_Theory/Kahneman_Tversky_1979_Prospect_theory.pdf)

rally, which then creates complex tax events that some investors later prefer not to report at all.

The disposition effect builds on this and describes the tendency to sell winners too early and ride losers too long.<sup>9</sup> In crypto, mobile trading apps and exchange dashboards show unrealised profit in real time, and this triggers frequent profit booking before the position matures. When each sale falls within section 115BBH of the Income-tax Act as a separate transfer of virtual digital assets, these behavioural trades multiply taxable events, and investors who acted on impulse now confront a heavy tax liability that they may try to understate or hide in the return filing process.

Herd behaviour theory adds a social layer to this decision pattern. Shiller links speculative bubbles to narratives and social contagion, where people follow the crowd rather than any fundamental value.<sup>10</sup> Social media channels and finfluencer groups magnify this dynamic in crypto because investors see others share screenshots of returns, new airdrops, or “next 100x” coins. This herding can drive investors into frequent, leveraged, and cross-platform trades and later into tax non-compliance when they perceive that “everyone else is doing the same” and the state cannot audit such a large herd.

Overconfidence and self-attribution bias also matter in a market like crypto that moves 24/7 with strong price swings. Barberis and Thaler describe how investors overestimate their skill and attribute good outcomes to their own ability and bad outcomes to bad luck or external shocks.<sup>11</sup> In the Indian VDA context, overconfident traders may downplay regulatory risk, assume that small trades or peer-to-peer transfers on foreign platforms remain invisible to the tax department, and therefore rationalise non-disclosure of gains or a selective declaration of only part of their profitable trades.

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<sup>9</sup> Hersh Shefrin & Meir Statman, *The Disposition to Sell Winners Too Early and Ride Losers Too Long: Theory and Evidence*, 40 *J. Fin.* 777 (1985), <https://onlinelibrary.wiley.com/doi/10.1111/j.1540-6261.1985.tb05002.x>.

<sup>10</sup> Robert J. Shiller, *Irrational Exuberance* 1–25 (3d ed. 2015).

<sup>11</sup> Nicholas Barberis & Richard Thaler, *A Survey of Behavioral Finance*, in *1B Handbook of the Economics of Finance* 1053 (George M. Constantinides et al. eds., 2003), <https://www.sciencedirect.com/science/article/pii/S1574010203010276>

### C. Social Media Influence and Digital Persuasion

Social media influence in this study means the way platforms and creators shape beliefs about crypto risk, reward, and even tax rules in a very persistent manner. Theories of echo chambers and information cocoons show that users cluster with like minded voices and filter out dissonant information, which narrows the range of views they see.<sup>12</sup> In these tight digital circles, investors repeatedly hear that crypto gives easy wealth, that regulation is weak, and that tax authorities cannot really track wallets, so constant repetition slowly turns such claims into something that feels like common sense.

Digital persuasion grows stronger because platform algorithms push content that gets clicks, likes and shares, not content that improves legal or tax literacy. Empirical work on algorithmic echo chambers explains how recommendation systems reinforce prior attitudes and turn online mood swings into market sentiment that can move prices.<sup>13</sup> When the feed sends a steady stream of bullish memes, success screenshots and simple trading slogans, it nudges investors toward rapid trading in volatile tokens while they ignore long and complex documents on Income Tax or anti money laundering duties.

Studies on crypto markets already find a link between social media engagement and token performance. One recent article shows that detailed engagement metrics on posts, such as reactions and comment patterns, predict cryptocurrency returns better than crude volume or basic sentiment scores.<sup>14</sup> For Indian traders this type of dynamic matters because they often enter or exit positions when online buzz peaks, create dense clusters of short term gains or losses, and later face a messy tax position that they may try to understate or leave out in the return filing cycle.

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<sup>12</sup> Xuekai Yuan et al., Research on the Formation Mechanism of Information Cocoon, 10 Hum. Soc. Sci. Commun. 1 (2022), <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC9809296/> (last visited Feb. 14, 2026).

<sup>13</sup> Prashant Sharma, Algorithmic Echo Chamber: How AI and Social Media Platforms Influence and Amplify Investor Sentiment, 8 Int'l J. Res. Innovation Soc. Sci. 103 (2025), <https://rsisinternational.org/journals/ijriss/articles/algorithmic-echo-chamber-how-ai-and-social-media-platforms-influence-and-amplify-investor-sentiment/> (last visited Feb. 14, 2026).

<sup>14</sup> Khawar Qureshi et al., Social Media Engagement and Cryptocurrency Performance, 13 Future Internet 1 (2023), <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC10174546/> (last visited Feb. 14, 2026).

## V. LEGAL AND REGULATORY FRAMEWORK GOVERNING CRYPTO ASSETS IN INDIA

### A. Position of Crypto Assets in Indian Law

Crypto assets in India do not enjoy the status of legal tender and they operate only as privately held digital property or value. The Reserve Bank of India in its cautions to users of virtual currencies has clearly stated that it has not authorised any entity to operate schemes or deal with virtual currencies and that any user or trader deals in such instruments at their own risk.<sup>15</sup> This stance signals that crypto sits outside the sovereign monetary system, yet it also leaves space for holding and trading as a form of asset, which is the starting point for taxation and compliance analysis.

Regulatory treatment of crypto assets moved through a phase of near exclusion from the banking system and then to a more nuanced supervisory approach. The RBI circular dated 6 April 2018 directed regulated entities not to deal in or provide services for virtual currencies, which effectively cut off exchanges from formal payment rails. In *Internet and Mobile Association of India v. Reserve Bank of India*, the Supreme Court set aside this circular as a disproportionate restriction under Article 19(1)(g) while still affirming that RBI has jurisdiction over risks posed by virtual currencies to the payment and credit system, so crypto remained lawful but tightly risk framed.<sup>16</sup>

Parliament later gave crypto assets express recognition as “virtual digital assets” in the Income tax Act, 1961, without treating them as currency. The Finance Act 2022 inserted section 2(47A) to define virtual digital asset and created section 115BBH to tax income from transfer of such assets at a flat 30 percent rate, along with section 194S for tax deduction at source on consideration paid on transfer.<sup>17</sup> This structure positions crypto

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<sup>15</sup> Reserve Bank of India, Press Release, RBI Cautions Users of Virtual Currencies, RBI (Dec. 24, 2013), <https://www.rbi.org.in/commonman/English/scripts/PressReleases.aspx?Id=2152> (last visited Feb. 14, 2026).

<sup>16</sup> *Internet & Mobile Ass'n of India v. Reserve Bank of India*, (2020) 10 SCC 274.

<sup>17</sup> The Finance Bill, 2022, Bill No. 18 of 2022, INDIA BUDGET.

clearly as a taxable asset class and presumes that investors will disclose trades and gains in their returns, even when the underlying tokens remain outside central bank money.

Subordinate legislation has refined the scope of what counts as crypto for tax purposes, especially in relation to non fungible tokens and similar instruments. CBDT Notification No. 75/2022 clarifies which NFTs fall within the definition of virtual digital asset and at the same time excludes NFTs whose transfer essentially passes legal ownership of an underlying tangible asset, which shows a careful attempt to ring fence purely digital value from ordinary property transactions.<sup>18</sup>

### **B. Direct Taxation of Virtual Digital Assets**

Section 2(47A) of the Income tax Act, 1961 creates the statutory anchor for direct taxation by defining a virtual digital asset as a digital representation of value generated through cryptographic or similar means, which can be transferred, stored or traded electronically and is not legal tender.<sup>19</sup> This wide and tech neutral formula pulls mainstream cryptocurrencies, many utility tokens, and specified non fungible tokens into the income tax net and leaves very little room for taxpayers to argue that their tokens fall outside the charging provisions.

Section 115BBH then imposes a distinct charging regime that taxes income from the transfer of any virtual digital asset at a flat rate of 30 percent, without differentiation between long term and short term holding periods or between speculative and investment motives.<sup>20</sup> The provision also denies set off of losses from one VDA against income from another VDA, and prohibits carry forward of VDA losses to later years, which makes the regime intentionally harsh and removes many planning tools that exist

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<sup>18</sup> Notification No. 75/2022, Cent. Bd. of Direct Taxes, Income Tax Dep't, Ministry of Fin. (June 30, 2022), <https://incometaxindia.gov.in/communications/notification/notification-no-75-2022.pdf> (last visited Feb. 14, 2026).

<sup>19</sup> The Finance Bill, 2022, Bill No. 18 of 2022, INDIA BUDGET, [https://www.indiabudget.gov.in/budget2022-23/doc/Finance\\_Bill.pdf](https://www.indiabudget.gov.in/budget2022-23/doc/Finance_Bill.pdf) (last visited Feb. 14, 2026).

<sup>20</sup> Cent. Bd. of Direct Taxes, Frequently Asked Questions on Taxation of Virtual Digital Assets (VDAs) (Apr. 2022), [https://incometaxindia.gov.in/Lists/Latest%20News/Attachments/472/FAQ-on-taxation-of-VDAs\\_20-4-22.pdf](https://incometaxindia.gov.in/Lists/Latest%20News/Attachments/472/FAQ-on-taxation-of-VDAs_20-4-22.pdf) (last visited Feb. 14, 2026).

in ordinary capital gains taxation; this design choice can in turn influence investor behaviour and tempt under reporting when trades end in net loss.

The withholding mechanism in section 194S seeks to create a third party trail. It requires any person responsible for paying consideration to a resident for transfer of a virtual digital asset to deduct tax at source at 1 percent of such consideration, subject to monetary thresholds for small transactions and special rules for exchanges and brokers.<sup>21</sup> CBDT guidelines clarify that exchanges may undertake TDS on a grossing up basis where consideration is partly in kind and that off market peer to peer transfers where no “person responsible” can be identified still leave the underlying tax liability intact, which means that gaps in TDS coverage do not weaken the substantive charge in section 115BBH.<sup>22</sup>

### C. Indirect Tax and Financial Regulation Dimensions

Goods and Services Tax treats most crypto related activity as supply of services rather than as money. Under section 7 of the Central Goods and Services Tax Act, 2017, any activity carried out for consideration in the course of business counts as supply, and revenue authorities have indicated in internal guidance that exchange services, wallet services, and platform fees on virtual digital asset trades attract GST at standard rates, while the tokens themselves do not enjoy any specific exemption as currency or securities. This view increases the cost of compliant platforms and may quietly push some users toward unregistered or offshore venues.

Cross border flows of crypto assets raise questions under the Foreign Exchange Management Act, 1999. FEMA controls capital account transactions and current account transactions between residents and nonresidents, but it still does not contain an explicit category for virtual digital assets. The RBI has cautioned that remittances routed through the Liberalised Remittance Scheme cannot be used for purchase of foreign crypto assets, and recent enforcement actions signal that use of resident accounts to fund overseas

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<sup>21</sup> Income tax Dep’t, Tax Deduction at Source (TDS) on Virtual Digital Assets u/s 194S of the Income tax Act, 1961 (June 22, 2022), <https://incometaxindia.gov.in/communications/circular/circular-13-2022.pdf> (last visited Feb. 14, 2026).

<sup>22</sup> Id.

exchanges can attract scrutiny under the Foreign Exchange Management (Current Account Transactions) Rules, 2000.<sup>23</sup> The lack of a bespoke framework leaves investors in a grey zone where many assume that detection risk is low and therefore ignore both exchange control and tax implications.

Anti money laundering regulation now places virtual digital asset service providers squarely within the financial surveillance perimeter. The March 2023 notification under section 2(1)(sa) of the Prevention of Money Laundering Act, 2002 specifies that persons carrying on exchange between VDAs and fiat currencies, VDA to VDA exchange, transfer of VDAs, safekeeping and administration of VDAs, and participation in financial services related to issuance or sale of VDAs are reporting entities.<sup>24</sup> They must comply with the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 on customer due diligence, record keeping and suspicious transaction reporting, which in turn generates data trails that the tax administration can later mine.

## VI. SOCIAL MEDIA, DIGITAL PLATFORMS AND FINANCIAL INFLUENCE: REGULATORY CONTEXT

### A. Intermediary Liability and Platform Duties

Intermediary liability in India turns mainly on section 79 of the Information Technology Act, 2000, which grants a conditional safe harbour to intermediaries for third party content. An intermediary that only provides access to a communication system and does not initiate the transmission, select the receiver, or modify the information, remains immune from liability if it observes due diligence and does not conspire in unlawful acts.<sup>25</sup> This model covers social media platforms that host crypto promotion, trading tips

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<sup>23</sup> Reserve Bank of India, Master Direction, Liberalised Remittance Scheme (LRS) for Resident Individuals (June 12, 2018), <https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11257> (last visited Feb. 14, 2026).

<sup>24</sup> Notification S.O. 1072(E), Ministry of Fin., Dep't of Revenue, Gazette of India (Mar. 7, 2023), <https://egazette.gov.in/WriteReadData/2023/244184.pdf> (last visited Feb. 14, 2026).

<sup>25</sup> The Information Technology Act, No. 21 of 2000, § 79, INDIA CODE, [https://www.indiacode.nic.in/show-data?actid=AC\\_CEN\\_45\\_76\\_00001\\_200021\\_1517807324077&ordermo=105](https://www.indiacode.nic.in/show-data?actid=AC_CEN_45_76_00001_200021_1517807324077&ordermo=105) (last visited Feb. 14, 2026).

or casual statements about tax obligations and makes the statutory starting point one of limited responsibility for user speech.

The Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021 build the due diligence layer that section 79 requires. These rules classify “social media intermediaries” and “significant social media intermediaries” by user base and impose obligations such as appointment of a grievance officer, time bound takedown of unlawful content on receipt of actual knowledge, and publication of user agreements that prohibit content which is fraudulent or unlawful.<sup>26</sup> When a platform continues to host crypto content that openly encourages tax evasion or conceals the taxable nature of virtual digital asset gains, regulators can argue that it failed to enforce its own terms and conditions that mirror these rules.

The Supreme Court in *Shreya Singhal v. Union of India* read down section 79 and limited the circumstances in which safe harbour can be lost. The Court held that an intermediary acquires “actual knowledge” only when it receives a court order or a notification from the appropriate government or agency that identifies specific unlawful content, and that private complaints alone do not trigger takedown duties.<sup>27</sup> This interpretation protects platforms from overbroad liability but also means that, in practice, most crypto related misinformation or irresponsible tax talk remains online unless public authorities act, which weakens any ex ante expectation that platforms will filter such content.

Successive amendments to the IT Rules after 2021 further stress platform duties to curb harmful and misleading information, including deepfakes and AI generated content. The Ministry of Electronics and Information Technology has explained that intermediaries must make “reasonable efforts” to ensure users do not host or share information that

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<sup>26</sup> Ministry of Elecs. & Info. Tech., The Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021 (updated as on Apr. 6, 2023), <https://www.meity.gov.in/static/uploads/2024/02/Information-Technology-Intermediary-Guidelines-and-Digital-Media-Ethics-Code-Rules-2021-updated-06.04.2023-.pdf> (last visited Feb. 14, 2026).

<sup>27</sup> *Shreya Singhal v. Union of India*, (2015) 5 SCC 1; see also Case Summary, *Shreya Singhal v. Union of India*, GLOBAL FREEDOM OF EXPRESSION, <https://globalfreedomofexpression.columbia.edu/cases/shreya-singhal-v-union-of-india/> (last visited Feb. 14, 2026).

deceives or misleads on origin or is patently false, and has tightened Rule 3 obligations to strengthen accountability.<sup>28</sup> Although the focus of these changes has been political misinformation and online harms, the same clauses can logically extend to deceptive financial promotions and crypto narratives that obscure tax liabilities or promise “tax free” gains.

### **B. Regulation of Financial Advertising and Influencer Activity**

Indian securities law regulates financial advertising first through the basic prohibition on fraudulent and unfair trade practices. Section 12A of the SEBI Act, 1992 and the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 bar misleading statements, manipulative devices and any act which operates as a fraud upon investors.<sup>29</sup> When a crypto platform or listed intermediary funds promotional content that promises assured returns, hints at tax free gains, or suppresses risk factors, this regime can treat such content as a fraudulent practice even if it appears on social media rather than in classic print or television advertisements.

SEBI’s Investment Advisers Regulations, 2013 and Research Analysts Regulations, 2014 create licensing and conduct duties for those who provide investment recommendations for consideration.<sup>30</sup> An influencer who gives specific buy or sell calls in listed securities or in crypto products that have a nexus with securities and receives any form of monetary benefit, referral fee or indirect compensation may fall within these categories and must comply with registration, disclosure of conflicts, and suitability norms. Enforcement

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<sup>28</sup> Press Release, Press Info. Bureau, Gov’t of India, Government Notifies Amendments to Rule 3(1)(d) of the IT (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021 (Oct. 23, 2025), <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2181719> (last visited Feb. 14, 2026).

<sup>29</sup> The Securities and Exchange Board of India Act, No. 15 of 1992, § 12A, INDIA CODE; SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003, [https://www.sebi.gov.in/legal/regulations/may-2003/sebi-prohibition-of-fraudulent-and-unfair-trade-practices-relating-to-securities-market-regulations-2003-last-amended-on-july-24-2023-\\_34627.html](https://www.sebi.gov.in/legal/regulations/may-2003/sebi-prohibition-of-fraudulent-and-unfair-trade-practices-relating-to-securities-market-regulations-2003-last-amended-on-july-24-2023-_34627.html) (last visited Feb. 14, 2026).

<sup>30</sup> Sec. & Exch. Bd. of India, SEBI (Investment Advisers) Regulations, 2013, <https://www.sebi.gov.in/legal/regulations/jan-2013/sebi-investment-advisers-regulations-2013-last-amended-on-january-17-2024- 33729.html> (last visited Feb. 14, 2026).

actions against unregistered tip providers show that SEBI already reads online and social media activity into these norms when advice becomes systematic and monetised.<sup>31</sup>

Crypto specific advertising has drawn additional scrutiny. The Advertising Standards Council of India issued detailed guidelines for “advertisements of virtual digital assets and linked services” in 2022, requiring a prominent disclaimer that crypto products and NFTs are unregulated, can be highly volatile, and “may not be legal in India” and prohibiting claims of guaranteed returns or comparison with regulated products such as bank deposits.<sup>32</sup> These guidelines, while self regulatory, now operate as a benchmark for fairness; regulators can point to them when they assess whether a crypto advertisement or influencer video misleads investors about risk, regulation or tax treatment.

Generally influenced advertising rules also apply. ASCI’s Guidelines for Influencer Advertising in Digital Media require clear and upfront disclosure of material connections such as payments, gifts, affiliate links or profit shares, and mandate that such disclosure be visible even on short form video and live streams.<sup>33</sup> In the crypto context, failure to reveal that a “review” or “educational” video is actually sponsored by an exchange, token issuer or foreign platform can mislead viewers about independence and may compound misleading impressions about tax compliance, for example when a creator frames high risk, high churn trading as normal behaviour without mentioning the resulting section 115BBH and 194S consequences.

### C. Data Governance and Targeted Persuasion

Digital personal data now forms the raw material for targeted persuasion in crypto and financial advertising. The Digital Personal Data Protection Act, 2023 treats social media

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<sup>31</sup> Order, In re Front Running and Unregistered Advisory in the Matter of Axis Mutual Fund, SEBI (Apr. 27, 2023), [https://www.sebi.gov.in/enforcement/orders/apr-2023/order-in-the-matter-of-front-running-and-unregistered-investment-advisory-relating-to-axis-mutual-fund\\_70377.html](https://www.sebi.gov.in/enforcement/orders/apr-2023/order-in-the-matter-of-front-running-and-unregistered-investment-advisory-relating-to-axis-mutual-fund_70377.html) (last visited Feb. 14, 2026).

<sup>32</sup> Advert. Standards Council of India, Guidelines for Advertising of Virtual Digital Assets and Linked Services (effective Apr. 1, 2022), <https://ascionline.in/images/pdf/guidelines-for-virtual-digital-assets.pdf> (last visited Feb. 14, 2026).

<sup>33</sup> Advert. Standards Council of India, Guidelines for Influencer Advertising in Digital Media (rev. 2023), <https://ascionline.in/images/pdf/asci-guidelines-for-influencer-advertising-in-digital-media.pdf> (last visited Feb. 14, 2026).

companies and many crypto platforms as data fiduciaries who must collect and process personal data only for lawful purposes based on free, specific and informed consent or other recognised grounds.<sup>34</sup> When a platform infers that a user is young, financially inexperienced, and already searching for high return products, then serves them repeated crypto ads or influencer reels, it uses that personal data to steer behaviour and this raises questions under the principles of purpose limitation and data minimisation, even if those terms appear in softer form than under European law.

The DPDP Act allows processing for “legitimate uses” such as prevention of fraud or network security but it does not create a detailed framework on profiling or automated decision making.<sup>35</sup> This silence leaves a gap for behavioural targeting in financial services, because recommendation algorithms can rank and push crypto content to users whose past clicks show interest in quick gains or speculative themes. In practice, microtargeted campaigns can segment audiences by risk appetite or apparent tax literacy and then promote complex, high churn strategies that generate taxable events, while users rarely understand how their data feeds these nudges.

Children and young people receive some extra protection. The Act requires verifiable consent of a parent for processing children’s data and prohibits tracking or targeted advertising directed at children.<sup>36</sup> However, platforms can struggle to reliably distinguish a 17-year-old from a 19 year old user, and age gating tools remain imperfect, so teen investors often see the same crypto and “side income” content as adults. This practical weakness means that a vulnerable group, with little tax knowledge, may be exposed to persuasive messages that normalise nonreporting of small gains or use of anonymous wallets.

Platform terms of service and privacy policies often grant wide permission for personalised ads and content recommendation. Empirical work on fintech apps shows that opaque privacy notices, bundled consent and dark patterns can nudge users into

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<sup>34</sup> The Digital Personal Data Protection Act, No. 22 of 2023, § 4, § 5, INDIA CODE.

<sup>35</sup> Id. § 7.

<sup>36</sup> Id. § 9.

sharing far more financial and behavioural data than they would in a fully transparent environment.<sup>37</sup> When crypto exchanges integrate with social media for single sign on or referral tracking, these data flows can create rich profiles that support hyper focused campaigns, such as promotions timed around salary credit dates or local tax filing deadlines, which may subtly suggest that users can “offset” tax through more speculative trading.

## VII. TAX COMPLIANCE THEORY AND CRYPTO-SPECIFIC NON-COMPLIANCE

Tax compliance theory starts from the economic model of deterrence, where the taxpayer compares the expected gain from evasion with the probability of detection and the severity of sanctions. Allingham and Sandmo formalised this as a choice under risk, in which rational actors evade up to the point where marginal benefit equals expected marginal penalty.<sup>38</sup> In the crypto setting, pseudonymous wallets, offshore exchanges and fragmented records reduce perceived detection probabilities, so the classic model predicts a higher optimal level of evasion unless enforcement tools adapt to the technology.

Subsequent literature shows that deterrence alone does not fully explain compliance and that tax morale also matters. Feld and Frey argue that trust in public institutions, perceived fairness of the tax system and the sense of reciprocal benefit strongly influence whether individuals report honestly even when audit risk is low.<sup>39</sup> If young Indian crypto investors view the flat 30 percent rate under section 115BBH as punitive and feel that the state treats them mainly as gamblers rather than legitimate savers, their intrinsic willingness to comply may weaken, especially for small or experimental trades.

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<sup>37</sup> Mozilla Found., Privacy Not Included: Fintech Apps (2023), <https://foundation.mozilla.org/en/privacynotincluded/categories/finance> (last visited Feb. 14, 2026).

<sup>38</sup> Michael G. Allingham & Agnar Sandmo, Income Tax Evasion: A Theoretical Analysis, 1 J. Pub. Econ. 323 (1972), <https://www.sciencedirect.com/science/article/pii/0047272772900102> (last visited Feb. 14, 2026).

<sup>39</sup> Lars P. Feld & Bruno S. Frey, Tax Compliance as the Result of a Psychological Tax Contract: The Role of Incentives and Responsive Regulation, 29 Law & Pol’y 102 (2007), <https://onlinelibrary.wiley.com/doi/10.1111/j.1467-9930.2007.00248.x> (last visited Feb. 14, 2026).

Behavioural work on complexity and cognitive load adds another layer. Kirchler and colleagues show that complex rules, unclear forms and volatile guidance increase unintentional non-compliance and also provide psychological cover for aggressive positions.<sup>40</sup> The virtual digital asset regime multiplies tax events across every swap, bridge or airdrop and interacts with multiple heads of income, so retail investors who trade through several apps in a year may lack a coherent record and then rationalise under-reporting as an unavoidable approximation rather than deliberate evasion.

Crypto-specific evidence from foreign tax administrations suggests that many holders simply do not recognise tax obligations. An OECD report on taxing virtual currencies notes that surveys in several jurisdictions found high levels of ignorance about the need to declare crypto disposals and widespread belief that small or “hobby” holdings fall outside the tax net. Social media narratives in India that describe crypto as a parallel, decentralised space can reinforce this misunderstanding and create a perceived boundary between “on chain” activity and the formal tax system, even though domestic law now expressly covers virtual digital assets.

## VIII. COMPARATIVE AND INTERNATIONAL PERSPECTIVES

Global tax and regulatory treatment of crypto assets have shifted from uncertainty to structured transparency frameworks. The OECD’s Crypto Asset Reporting Framework extends automatic exchange of information to crypto assets by requiring reporting crypto service providers to identify users, collect transaction data and share it with tax authorities in participating states.<sup>41</sup> For Indian policymakers, CARF shows how cross border information flows can close gaps created by offshore exchanges and help detect crypto tax non compliance even when investors trade outside domestic platforms.

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<sup>40</sup> Erich Kirchler, Erik Hoelzl & Ingrid Wahl, Enforced versus Voluntary Tax Compliance: The “Slippery Slope” Framework, 29 J. Econ. Psych. 210 (2008), <https://www.sciencedirect.com/science/article/pii/S016748700700103X> (last visited Feb. 14, 2026).

<sup>41</sup> Org. for Econ. Co operation & Dev., Crypto Asset Reporting Framework: Frequently Asked Questions (Dec. 2025), <https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/tax-transparency-and-international-co-operation/faqs-crypto-asset-reporting-framework.pdf> (last visited Feb. 14, 2026).

The European Union has gone further by embedding crypto transparency into its Directive on Administrative Cooperation through the instrument commonly called DAC8. The directive requires reporting crypto asset service providers, including non EU firms with EU clients, to perform due diligence and report detailed information on users and transactions to national tax administrations, starting from 1 January 2026.<sup>42</sup> This move signals that large markets will expect platform level reporting rather than rely only on self declaration, and it offers a benchmark for India as it evaluates how far VDA exchanges and wallets should support the income tax and PMLA architecture.

The United States Internal Revenue Service treats virtual currency and other digital assets as property for federal income tax purposes and has progressively tightened disclosure duties. IRS guidance, including Notice 2014 21 and later updates, clarifies that every sale, exchange or use of digital assets in payment can trigger taxable gain or loss, and Form 1040 now carries a direct question on digital asset activity.<sup>43</sup> This explicit framing of crypto as fully taxable, coupled with enforcement campaigns and information summons to exchanges, illustrates how a major jurisdiction uses both law and messaging to alter investor expectations about the invisibility of crypto trades.

The European Union's Markets in Crypto Assets Regulation represents a different but complementary strand of international practice. Regulation (EU) 2023/1114 creates a single rulebook for issuance and public offering of crypto assets, licensing of crypto asset service providers and market abuse controls, while aiming to protect investors and safeguard financial stability.<sup>44</sup> By subjecting many crypto businesses to prudential, conduct and disclosure rules similar to those for traditional financial institutions, MiCA

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<sup>42</sup> Tax Transparency Rules for Crypto Asset Transactions (DAC8), EUR. COMM'N, [https://taxation-customs.ec.europa.eu/taxation/tax-transparency-cooperation/administrative-co-operation-and-mutual-assistance/directive-administrative-cooperation-dac/dac8\\_en](https://taxation-customs.ec.europa.eu/taxation/tax-transparency-cooperation/administrative-co-operation-and-mutual-assistance/directive-administrative-cooperation-dac/dac8_en) (last visited Feb. 14, 2026).

<sup>43</sup> Digital Assets, INTERNAL REVENUE SERV., <https://www.irs.gov/filing/digital-assets> (last visited Feb. 14, 2026).

<sup>44</sup> Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on Markets in Crypto Assets, 2023 O.J. (L 150) 40, <https://eur-lex.europa.eu/eli/reg/2023/1114/oj/eng> (last visited Feb. 14, 2026).

reduces the scope for aggressive, lightly supervised platforms that might otherwise facilitate tax evasion or mislead investors about regulatory status.

International cooperation now increasingly links these strands of tax transparency and market regulation. OECD monitoring reports highlight that CARF and the amended Common Reporting Standard seek to ensure that crypto assets do not become a last resort for hidden offshore wealth, and note that many jurisdictions, including EU members and G20 states, are in the process of aligning domestic law with these standards.<sup>45</sup> For India, which already participates actively in global tax transparency initiatives, these developments create both external pressure and practical opportunities to integrate VDA tax enforcement with cross border reporting, and to benchmark domestic investor protection against evolving international norms.

## IX. FINDINGS AND CRITICAL ANALYSIS

Indian crypto participation is broad based and retail heavy, yet formal compliance still looks thin and uneven. Survey estimates suggest that more than ninety million Indians now hold some form of cryptocurrency, which already places India among the largest global markets by absolute number of users.<sup>46</sup> At the same time, official data on tax collected through section 194S TDS show significant revenue and detection of large amounts of previously undisclosed virtual digital asset income, but they also hint that many small and mid sized investors continue to under report or not report at all, especially where trades occur across several platforms.

Regulatory responses to social media driven financial influence remain fragmented and somewhat reactive. SEBI's consultation on association of intermediaries with finfluencers rightly identifies conflicts of interest and the risk of unregistered advisory, yet it mainly targets revenue sharing arrangements and does not fully address the deeper problem of

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<sup>45</sup> Org. for Econ. Co operation & Dev., Crypto Asset Reporting Framework: 2025 Monitoring and Implementation Update (2025), <https://www.oecd.org/content/dam/oecd/en/networks/global-forum-tax-transparency/crypto-asset-reporting-framework-monitoring-implementation-update-2025.pdf> (last visited Feb. 14, 2026).

<sup>46</sup> Cryptocurrency Ownership Data: India, TRIPLE A, <https://www.triple-a.io/cryptocurrency-data/india> (last visited Feb. 14, 2026).

algorithmically amplified, high velocity content that normalises speculative trading and treats crypto gains as casual, quasi tax-free windfalls. This narrow focus leaves a space in which influencers continue to shape tax perceptions while platforms rely on safe harbour and advertising self-regulation.

The extension of the Prevention of Money Laundering Act to virtual digital asset service providers marks a clear shift toward activity-based regulation, supported by FIU IND show cause notices and requests to block the URLs of noncompliant offshore exchanges. Yet behavioural signals from users and anecdotal reports suggest that many traders still believe that using foreign platforms, peer to peer channels or “decentralised” interfaces places them outside the realistic enforcement perimeter, so a gap persists between the legal risk and the perceived risk.

International work on tax transparency shows that crypto assets are now central to the global agenda, not a side issue. The OECD’s Crypto Asset Reporting Framework and its 2025 monitoring update emphasise that jurisdictions are moving toward systematic cross border exchange of crypto transaction data, and India has indicated an intention to join such exchanges in the coming years. Against this background, the Indian regime combines a very high flat tax rate with growing information trails, which may paradoxically increase the incentive for some investors to seek opacity or to exit formal channels until credible enforcement changes their cost benefit calculus.

## **X. REFORM PROPOSALS AND POLICY RECOMMENDATIONS**

Direct tax rules on virtual digital assets should move toward clarity and proportionality without diluting enforcement. A calibrated rate structure, for example a lower rate for long term, fully disclosed holdings and a higher rate for short term speculative trading, can better align with standard capital gains logic and behavioural insights, while preserving a strong stance against evasion. Such differentiation, if combined with clean loss set off rules and simple reporting schedules, may reduce the psychological sense of “confiscatory” taxation that now feeds noncompliance narratives on social media.

Platform based reporting needs systematic expansion and tighter standardisation. Drawing on the OECD Crypto Asset Reporting Framework and the EU DAC8 model, India can require all resident VDA service providers and significant foreign platforms with Indian users to file periodic, PAN linked statements on trades, transfers and holdings, in a format that integrates directly with prefilled income tax returns. This would shift much of the record keeping burden away from small investors, narrow the scope for “forgotten” wallets, and enhance perceived detection probability without relying only on intrusive audits.

Regulation of finfluencers should rest on a mix of registration, disclosure and supervised partnerships. SEBI’s proposal to restrict revenue sharing with unregistered influencers can be taken further by creating a light touch, online registration class for digital investment communicators, with mandatory training modules on VDA tax rules, conflict of interest disclosures, and black list treatment for chronic offenders. Platforms could then be required, under IT Rules and advertising codes, to label only such registered accounts as permitted to issue financial calls, while others must avoid specific buy or sell recommendations.

## **XI. CONCLUSION**

The analysis shows that crypto tax non-compliance in India does not arise only from technical loopholes but from a dense interaction of investor psychology, social media influence and design choices in the virtual digital asset tax regime.<sup>47</sup> A flat 30 percent rate combined with denial of loss set off, complex record keeping and frequent taxable events creates both cognitive overload and a strong perception of unfairness, which many retail traders then express on social platforms as a shared narrative that “nobody can really comply fully”.<sup>48</sup>

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<sup>47</sup> Michael G. Allingham & Agnar Sandmo, *Income Tax Evasion: A Theoretical Analysis*, 1 J. Pub. Econ. 323 (1972), <https://www.sciencedirect.com/science/article/pii/0047272772900102> (last visited Feb. 14, 2026).

<sup>48</sup> Cent. Bd. of Direct Taxes, *Frequently Asked Questions on Taxation of Virtual Digital Assets (VDAs)* (Apr. 2022), [https://incometaxindia.gov.in/Lists/Latest%20News/Attachments/472/FAQ-on-taxation-of-VDAs\\_20-4-22.pdf](https://incometaxindia.gov.in/Lists/Latest%20News/Attachments/472/FAQ-on-taxation-of-VDAs_20-4-22.pdf) (last visited Feb. 14, 2026).

Behavioural finance theories help explain why this narrative sticks. Loss aversion, overconfidence, herding and mental accounting all push small investors toward high frequency trading in volatile tokens and toward selective reporting or complete non-reporting when the time comes to file returns.<sup>49</sup> Social media algorithms and finfluencer business models magnify these traits by rewarding sensational content, easy success stories and simplified or inaccurate tax claims, while more sober guidance by the tax administration or regulators rarely travels as far or as fast on the same platforms.<sup>50</sup>

The legal framework around crypto assets has moved fast but still looks fragmented from the user's vantage point. Income tax provisions, PMLA notifications, FIU guidelines, SEBI enforcement, ASCI advertising codes and IT Rules together place crypto inside a dense net of obligations, yet these rules sit across different statutes, websites and compliance channels.<sup>51</sup> For a young trader who operates primarily through a smartphone and short videos, this complexity translates into confusion rather than deterrence and creates space for informal norms of non-compliance to flourish.

Comparative and international developments indicate that the global direction of travel is toward data driven enforcement and routine cross border reporting of crypto transactions under frameworks like the OECD's Crypto Asset Reporting Framework and the EU's DAC8.<sup>52</sup> If India aligns with these standards while also refining domestic reporting, pre-filled returns and exchange based information flows, the objective probability of detection for crypto tax evasion will eventually rise sharply; however, unless communication and behavioural nudges shift perceptions on the ground, many

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<sup>49</sup> Daniel Kahneman & Amos Tversky, Prospect Theory: An Analysis of Decision under Risk, 47 *Econometrica* 263 (1979), [https://web.mit.edu/curhan/www/docs/Articles/15341\\_Readings/Behavioral\\_Decision\\_Theory/Kahneman\\_Tversky\\_1979\\_Prospect\\_theory.pdf](https://web.mit.edu/curhan/www/docs/Articles/15341_Readings/Behavioral_Decision_Theory/Kahneman_Tversky_1979_Prospect_theory.pdf) (last visited Feb. 14, 2026).

<sup>50</sup> Sec. & Exch. Bd. of India, Consultation Paper on Association of SEBI Registered Intermediaries/Regulated Entities with Unregistered Entities (including Finfluencers) (Aug. 25, 2023), <https://www.sebi.gov.in/reports-and-statistics/reports/aug-2023/consultation-paper-on-association-of-sebi-registered-intermediaries-regulated-entities-with-unregistered-entities-including-finfluencers-75932.html> (last visited Feb. 14, 2026).

<sup>51</sup> Fin. Intelligence Unit India, AML & CFT Guidelines for Virtual Digital Asset Service Providers (Jan. 8, 2026), <https://fiuindia.gov.in/pdfs/downloads/VDA08012026.pdf> (last visited Feb. 14, 2026).

<sup>52</sup> Org. for Econ. Co-operation & Dev., Crypto Asset Reporting Framework and Amendments to the Common Reporting Standard (2022), <https://www.oecd.org/tax/exchange-of-tax-information/crypto-asset-reporting-framework-and-amendments-to-the-common-reporting-standard.htm> (last visited Feb. 14, 2026).

retail investors may continue to act as if virtual digital assets remain practically invisible to the state.

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