

---

# CRYPTOCURRENCY TAX EVASION THROUGH THE DARK WEB: LEGAL CHALLENGES FOR INDIAN TAX AUTHORITIES

---

Akriti Yadav, Amity Law School, Amity University Uttar Pradesh, Lucknow

Dr. Mudra Singh, Assistant Professor, Amity Law School, Amity University,  
Uttar Pradesh, Lucknow

## ABSTRACT

The rapid growth of cryptocurrencies has fundamentally altered the global financial ecosystem. While digital currencies provide innovative methods for conducting decentralised and efficient financial transactions, they have also created new opportunities for financial misconduct. One of the most concerning developments is the use of cryptocurrencies for tax evasion through the dark web. The anonymity and decentralised nature of cryptocurrencies allow individuals to conduct financial transactions without relying on traditional financial institutions, making it significantly more difficult for governments to monitor and regulate such activities. In India, where cryptocurrency regulation is still evolving, tax authorities face several legal and technological challenges in identifying, tracing, and prosecuting cases of tax evasion linked to the dark web. <sup>1</sup>

This paper examines the relationship between cryptocurrency transactions and dark web marketplaces, focusing specifically on the legal challenges faced by Indian tax authorities in addressing tax evasion. It analyses the current regulatory framework governing cryptocurrencies in India, including the taxes on provisions introduced under the Finance Act, 2022.<sup>2</sup> the paper further explores enforcement difficulties such as anonymity, lack of international cooperation, limited technical experience, and regulatory ambiguity. Finally, the paper presents recommendations for strengthening India's regulatory and enforcement mechanisms through capacity building, international collaboration, adaptive legislation, and increased public awareness.

**Keywords:** Cryptocurrency, Tax Evasion, Dark Web, Blockchain, Virtual Digital Assets, Finance Act 2022, Anonymity, Money Laundering, Indian Tax Authorities, Regulatory Framework

## **Introduction**

The emergence of cryptocurrencies over the past decade has reshaped the way financial transactions are conducted across the world. Cryptocurrencies such as Bitcoin, Ethereum, and Monero operate on decentralized blockchain technology, enabling peer-to-peer transactions without the need for intermediaries such as banks or financial institutions.<sup>3</sup> This technological innovation has brought several advantages, including faster cross-border transactions, reduced transaction costs, and increased financial inclusion.

However, the same characteristics that make cryptocurrencies appealing for legitimate users also make them attractive for illegal activities. One such activity is tax evasion, which occurs when individuals or businesses deliberately conceal income or assets to avoid paying taxes.<sup>4</sup> The use of cryptocurrencies makes this easier because transactions can be conducted with a degree of anonymity and without direct oversight from regulatory authorities.

The problem becomes even more complex when cryptocurrency transactions occur on the dark web, a hidden segment of the internet that cannot be accessed through conventional search engines. Dark web platforms often host marketplaces where users trade illegal goods and services using cryptocurrencies.<sup>5</sup> Because these transactions are encrypted and pseudonymous, identifying the individuals involved becomes extremely difficult.

For Indian tax authorities, cryptocurrency-based tax evasion presents a unique regulatory and enforcement challenge. Although India has recently introduced taxation rules for virtual digital assets, the regulatory framework remains incomplete and enforcement mechanisms are still developing.<sup>6</sup> As a result, many individuals exploit these regulatory gaps to conceal crypto income and avoid paying taxes.

This paper seeks to examine the legal and technological challenges associated with cryptocurrency tax evasion through the dark web and evaluate how Indian authorities can effectively address this growing problem.

## **The Dark Web and Cryptocurrency: An Overview**

To understand the issue of cryptocurrency-based tax evasion, it is essential to first examine the relationship between the dark web and cryptocurrencies.

The internet can broadly be divided into three layers: the surface web, the deep web, and the dark web. The surface web consists of websites that can be accessed through standard search engines such as Google. The deep web includes content that is not indexed by search engines but is still accessible through regular browsers, such as private databases or academic resources. The dark web, on the other hand, is intentionally hidden and can only be accessed through specialized software such as the Tor browser. <sup>7</sup>

The dark web offers a high level of anonymity because it uses encryption techniques to conceal the identity and location of users. This anonymity has led to the creation of online marketplaces where users can buy and sell goods or services without revealing their identities.

Cryptocurrencies have become the preferred method of payment in these marketplaces. Traditional financial systems require users to disclose personal information, making it easier for authorities to track transactions. Cryptocurrencies, however, allow users to transfer funds directly between digital wallets, often without revealing their real-world identities. <sup>8</sup>

Early dark web marketplaces such as Silk Road popularized the use of Bitcoin for online transactions involving illegal goods. Although law enforcement agencies eventually shut down Silk Road, many similar platforms have emerged since then. <sup>9</sup> These marketplaces often rely on cryptocurrencies to facilitate payments because they are difficult to trace and can be transferred across borders with ease.

While Bitcoin transactions are recorded on a public blockchain, users can employ various techniques to obscure the trail of funds. These include mixing services that blend multiple transactions together and privacy-focused cryptocurrencies such as Monero that conceal transaction details entirely. <sup>10</sup>

The combination of encrypted communication networks and anonymous financial systems creates an environment where individuals can conduct transactions with minimal risk of detection. As a result, the dark web has become a significant channel for activities such as money laundering, illegal trade, and tax evasion.

### **Cryptocurrency and Taxation in India**

India's regulatory approach toward cryptocurrencies has undergone several significant

changes over the past decade. Initially, the Indian government adopted a cautious stance due to concerns about financial stability, investor protection, and the potential misuse of cryptocurrencies for illegal activities.

In 2018, the Reserve Bank of India issued a circular prohibiting banks from providing services to cryptocurrency exchanges and businesses.<sup>11</sup> This effectively restricted the operation of crypto platforms in the country. However, in the landmark case of *Internet and Mobile Association of India v. Reserve Bank of India (2020)*, the Supreme Court struck down the RBI circular, holding that the restrictions were disproportionate and lacked sufficient legal justification.<sup>12</sup>

Following the Supreme Court's decision, cryptocurrency trading in India experienced rapid growth. However, the absence of a comprehensive regulatory framework created uncertainty regarding the legal status of digital assets.

A significant development occurred with the Finance Act, 2022, which introduced specific taxation provisions for cryptocurrencies, referred to as Virtual Digital Assets (VDAs).<sup>13</sup> Under this framework, income arising from the transfer of virtual digital assets is taxed at a flat rate of 30 percent. Additionally, a 1 percent tax deducted at source (TDS) is applied to crypto transactions above a certain threshold.

These measures indicate that the Indian government recognizes cryptocurrencies as taxable assets. However, the tax regime primarily focuses on transactions occurring through regulated exchanges. Many cryptocurrency users avoid these platforms altogether and instead conduct transactions on decentralized networks or dark web marketplaces, making it difficult for tax authorities to detect and tax such activities.

### **Cryptocurrency Tax Evasion: Methods and Mechanisms**

Tax evasion involving cryptocurrencies can occur through several methods. One common method is the failure to report cryptocurrency gains. Individuals who profit from trading cryptocurrencies may choose not to disclose these gains in their tax returns.<sup>14</sup>

Another method involves conducting transactions on foreign exchanges that do not share information with Indian authorities. Because cryptocurrencies operate on a global network, users can easily transfer funds to platforms located in other jurisdictions.

The dark web further complicates the situation. Individuals can purchase cryptocurrencies through informal channels and use them for transactions that leave little trace within the traditional financial system. For example, a taxpayer may receive payments in cryptocurrency for goods or services sold through dark web marketplaces. These payments can then be stored in digital wallets without being converted into fiat currency, thereby avoiding detection by tax authorities.

Some users also rely on cryptocurrency mixing services to obscure the origin of funds. These services pool together multiple transactions and redistribute them in a way that makes it difficult to determine the original source of the cryptocurrency.<sup>15</sup>

Privacy-focused cryptocurrencies present an even greater challenge. Unlike Bitcoin, which maintains a transparent public ledger, privacy coins such as Monero employ advanced cryptographic techniques that hide transaction amounts, wallet addresses, and other identifying information.<sup>16</sup>

These methods collectively enable individuals to conceal their financial activities and evade taxation.

### **Legal Challenges for Indian Tax Authorities**

Despite the introduction of cryptocurrency taxation laws, Indian tax authorities face numerous challenges in enforcing these regulations.

#### **Anonymity and Pseudonymity**

One of the most significant challenges arises from the pseudonymous nature of cryptocurrency transactions. While blockchain technology records every transaction on a public ledger, the identities of the individuals involved are typically represented by alphanumeric wallet addresses.<sup>17</sup>

Linking these wallet addresses to real-world individuals requires advanced investigative techniques and access to additional data sources. When users employ privacy tools or conduct transactions on the dark web, this process becomes even more difficult.

### **Jurisdictional Issues**

Cryptocurrency transactions often occur across multiple jurisdictions. A user located in India may conduct transactions on a platform hosted in another country while interacting with users located elsewhere in the world.

This creates complex jurisdictional questions regarding which country has the authority to investigate and prosecute such activities. In many cases, obtaining information from foreign platforms requires international legal cooperation, which can be time-consuming and uncertain.<sup>18</sup>

### **Limited Technical Expertise**

Another challenge lies in the technical complexity of blockchain technology. Effective enforcement requires specialized knowledge of blockchain analytics, digital forensics, and cybercrime investigation.<sup>19</sup>

Although Indian enforcement agencies have made progress in developing such capabilities, the rapid pace of technological innovation often outstrips the capacity of regulators to keep up.

### **Regulatory Uncertainty**

India's cryptocurrency regulatory framework remains incomplete. While the taxation provisions introduced in 2022 provide some clarity regarding the treatment of virtual digital assets, there is still no comprehensive legislation governing cryptocurrency trading, custody, or reporting requirements.<sup>20</sup>

This regulatory ambiguity creates loopholes that can be exploited by individuals seeking to evade taxes.

### **International Cooperation and Global Standards**

Addressing cryptocurrency tax evasion requires strong international cooperation. Because cryptocurrency transactions frequently cross-national borders, no single country can effectively regulate them in isolation.

Organizations such as the Financial Action Task Force (FATF) have developed guidelines for regulating virtual asset service providers. These guidelines require cryptocurrency exchanges to implement know-your-customer (KYC) procedures and share transaction information with regulatory authorities.<sup>21</sup>

India, as a member of the FATF, has committed to implementing these standards. However, enforcement remains uneven across different jurisdictions. Some countries have strict cryptocurrency regulations, while others maintain relatively lax oversight.

The lack of consistent global standards allows individuals to exploit regulatory differences by transferring funds through jurisdictions with weaker enforcement mechanisms.

### **My Perspective: Addressing the Challenge**

In my view, addressing cryptocurrency tax evasion through the dark web requires a multi-layered strategy that combines legal reform, technological advancement, and international cooperation.

First, Indian tax authorities must invest in technological capacity. Blockchain analytics tools can help investigators trace cryptocurrency transactions and identify suspicious patterns. Training programs should also be introduced to equip enforcement officers with the skills needed to investigate digital financial crimes.

Second, international cooperation should be strengthened. India should actively participate in global initiatives aimed at regulating virtual assets and sharing financial intelligence.

Third, regulatory frameworks must be dynamic and adaptable. Technology evolves rapidly, and static legal frameworks quickly become outdated.

Finally, public awareness plays an important role in ensuring compliance. Government agencies should conduct awareness campaigns to educate the public about cryptocurrency taxation and the consequences of non-compliance.

### **Conclusion**

Cryptocurrency tax evasion through the dark web represents a significant challenge for tax authorities in India and around the world. The anonymity provided by cryptocurrencies,

combined with the encrypted environment of the dark web, allows individuals to conduct financial transactions beyond the reach of traditional regulatory mechanisms.

Although India has taken important steps by introducing taxation provisions for virtual digital assets, enforcement remains difficult due to technological, legal, and jurisdictional obstacles.

By adopting proactive regulatory strategies, improving technological capacity, and strengthening international cooperation, India can enhance its ability to regulate the cryptocurrency ecosystem and protect the integrity of its tax system.

#### **ENDNOTES:**

1. Europol, Internet Organized Crime Threat Assessment (2023).
2. Government of India, Finance Act, 2022.
3. Andreas M. Antonopoulos, *Mastering Bitcoin* (O'Reilly Media, 2017).
4. OECD, *Taxing Virtual Currencies: An Overview of Tax Treatments and Emerging Issues* (2020).
5. Interpol, *Cryptocurrencies and the Darknet: Threat Assessment* (2022).
6. Nishith Desai Associates, *India's Evolving Crypto Landscape* (2023).
7. Daniel Moore & Thomas Rid, "Cryptopolitik and the Darknet" (2016) 21 *Survival* 7.
8. Chainalysis, *The 2023 Crypto Crime Report*.
9. *United States v. Ross Ulbricht, Silk Road Case* (2015).
10. Chainalysis, *Crypto Crime Report* (2023).
11. Reserve Bank of India Circular, DBR.No.BP.BC.104/08.13.102/2017-18 (6 April 2018).
12. *Internet and Mobile Association of India v. Reserve Bank of India* (2020) 10 SCC 274.
13. Income Tax Act 1961, s 115BBH (inserted by Finance Act 2022).
14. OECD, *Taxing Virtual Currencies* (2020).
15. FATF, *Virtual Assets Red Flag Indicators of Money Laundering and Terrorist Financing* (2020).
16. Sarah Meiklejohn et al., "A Fistful of Bitcoins: Characterizing Payments Among Men with No Names" (2013).
17. Chainalysis, *Crypto Crime Report* (2023).
18. FATF, *Guidance for a Risk-Based Approach to Virtual Assets* (2019).
19. Interpol *Global Cybercrime Programme Report* (2022).
20. Nishith Desai Associates, *Regulating Cryptocurrency in India* (2023).
21. FATF, *International Standards on Combating Money Laundering and the Financing of Terrorism* (2020)