

DIGITAL TAX EVASION AND FISCAL INJUSTICE IN PAKISTAN: A CRIMINOLOGICAL AND COMPARATIVE POLICY ANALYSIS

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Abstract

This paper examines the growing phenomenon of digital tax evasion in Pakistan, focusing on how cryptocurrencies, mobile wallets, and related digital payment systems create new vulnerabilities within the fiscal framework. The rapid expansion of digital finance has widened the gap between traditional tax regimes and emerging financial technologies, producing structural weaknesses that individuals and businesses exploit to conceal taxable income. The study analyzes key evasion techniques—including undisclosed crypto-assets, fragmented and opaque transaction networks, and income routed through mobile-wallet channels—and evaluates the effectiveness of existing regulatory responses.

In addressing these challenges, the paper proposes several preventive strategies such as mandatory disclosure of digital assets, formal recognition of online earnings as taxable income, and integrated data-sharing mechanisms among NADRA, financial institutions, and the Federal Board of Revenue. It further highlights the ethical and societal implications of digital tax evasion, emphasizing its contribution to fiscal inequality and the disproportionate burden it places on compliant taxpayers.

Drawing on comparative prevention models from the United States, the United Kingdom, and the European Union, the study outlines a realistic framework for modernizing Pakistan’s tax system to enhance transparency, oversight, and compliance in the digital economy. This research offers valuable insights for criminology, public policy, and fiscal governance, providing practical guidance for policymakers, tax authorities, and scholars seeking to understand and mitigate digital financial offenses.

1 Introduction

The global shift from cash-based transactions to digital payment systems has accelerated rapidly with the rise of cryptocurrencies, mobile wallets, and online trading platforms such as Binance. This digital transformation has redefined the way

individuals and businesses conduct financial activities, creating more flexible and efficient financial ecosystems. However, alongside these opportunities, digital finance has introduced significant challenges in taxation and regulatory oversight (Lim, 2022). As digital financial

instruments become more widespread, the income generated through these channels increasingly escapes traditional tax systems in many jurisdictions, including Pakistan (Mahmood, Rasool, & Samee, 2025). The diversification and opacity of income streams—particularly those arising from cryptocurrencies and mobile wallet transactions—have made it increasingly difficult for tax authorities to trace, assess, and collect revenue accurately (Vaivade, 2020).

Pakistan's tax architecture remains heavily bank-oriented, relying on voluntary reporting and paper-based documentation. Such a backward-looking framework, built upon outdated banking norms, is ill-equipped to capture the multidimensional nature of digital financial activity, including crypto trading, peer-to-peer (P2P) transfers, and mobile wallet transactions. This disconnect contributes to a substantial gap between real income and reported income, resulting in large portions of digital earnings going untaxed and unnoticed. The widening of this gap further complicates tax enforcement, enabling individuals and businesses operating in the digital domain to evade taxation with relative ease (Haider & Akhtar, 2024).

The Federal Board of Revenue (FBR) is similarly constrained, lacking the regulatory tools, technological capacity, and institutional coordination necessary to monitor rapidly evolving digital transactions. As a result, digital tax evasion continues to expand, facilitated by anonymous cryptocurrency exchanges and unregulated mobile wallet channels that allow taxpayers to conceal taxable revenue. This not only weakens the tax system but also places an unfair burden on compliant taxpayers who absorb the costs of fiscal leakage (Abid). The growing dependence on digital financial platforms has intensified fiscal inequality by concentrating tax obligations on salaried and formally registered individuals, while digital earners remain largely outside the tax net. Moreover, the state's inability to respond effectively to these emerging challenges has eroded public confidence in the tax system, discouraging voluntary compliance.

Without robust regulatory frameworks and enforcement mechanisms, Pakistan's digital

economy continues to operate in an under-regulated environment, enabling further tax leakage and deepening fiscal disparities. The gap between actual and reported income is not merely a technical deficiency but a broader socio-economic challenge, undermining the state's capacity to fund essential public services and infrastructure (Frulli, 2020).

As digital finance continues to expand, Pakistan's tax authorities must modernize their systems to ensure that digitally generated income is accurately captured and taxed. Achieving this requires a comprehensive redesign of the tax framework—one that integrates digital wallets, cryptocurrencies, and other emerging financial technologies into mainstream fiscal regulation (Kasuri, Abbas, & Mahmood, 2024). Bridging the divide between actual and reported income is essential to ensuring fairness, accountability, and transparency, thereby enabling both traditional and digital economic activities to contribute equitably to national development (Levi, 2025).

## 2 Statement of the Problem

The application of digital financial channels poses an uphill task to the taxation institutions in Pakistan as these are avenues whereby taxable income is increasingly being hidden. Trading cryptocurrencies, transactions with mobile wallets and other kinds of digital finance are often conducted outside the normal scope of traditional income-tax surveillance, and as such, allow individuals to escape tax payments at the risk of being detected. Lack of clear reporting mandates on the digital assets, and moreover, the disintegrating and outdated data infrastructure, compounds further on this matter. The tax architecture of Pakistan is not well placed to track the dynamic quality of the digital transactions making a large part of the inflow of income untaxed and unreported. Such a regulatory gap is heightened by the absence of powerful reporting tools to control the reality of cryptocurrency exchanges and mobile wallet service providers, which have hindered the Federal Board of Revenue (FBR) in its role of detecting and combating tax evasion. As a result, when people abuse these online channels to protect their income, those who do it never bear any

responsibility, and the responsible tax pays an undue burden of permanent taxpayers. This inequality does not only create fiscal injustice but also makes people lose trust in the tax system. With digital finance continuing its path of growth, the divide between honest and honest taxpayers is expanding, and thus, it is undermining the soundness of the whole tax regime. Devoid of remediation measures to correct shortfalls in reporting, enforcement and combination of information, the tax framework will not be able to ensure equity and transparency, further undermining confidence on the part of citizens on the effectiveness with which the state supports a fair and working fiscal regime.

### 3 Research Objectives

- **To explore the role of cryptocurrency and mobile wallets in tax evasion:** This purpose is aimed at studying how digital sources, namely cryptocurrencies and mobile wallets are used to hide taxable income and avoid the detection of taxing bodies.
- **To examine digital tax evasion through criminological concepts:** This aim is committed to the utilization of criminological theories like Routine Activity Theory and White-Colored Crime Theory in clarifying the behavior and motivation that lie behind digital tax evasion.
- **To determine regulatory and institutional malfunctions in the tax system in Pakistan:** The objective of this is to measure the shortcomings and weaknesses in the regulatory and institutional structures that promote evasion of digital taxes in Pakistan which include outdated filing requirements and enforcement difficulties.
- **To compare digital tax evasion prevention models in the USA, UK, and EU:** This aspect entails an overview of the digital tax evasion control measures that are in use in the United States, United Kingdom, and European Union, evaluation of the effectiveness of these measures, and identification of decisions that can be learnt in connection to the Republic of Pakistan.
- **To suggest effective prevention policies to Pakistan:** Relying on the comparative study of other effective models and challenges faced by

Pakistan in particular, this goal aims at proposing to the government, realistic and viable strategies to improve tax compliance in the digital economy.

- **To assess how digital tax evasion affects fiscal justice and the trustworthiness of the tax system:** This goal examines the effect of the digital tax evasion on fiscal injustice, the imposition on the tax system, and the destabilization of public trust in the tax system.
- **To investigate the data integration role in enhancing tax compliance:** In this purpose, the value of combining digital financial data among institutions, including banks, mobile wallet providers, and tax authorities, to enhance transparency and reduce tax evasion, will be evaluated.

### 4 Research Questions

- How have changes to digital finance management, including the spread of cryptocurrencies and mobile wallets, impacted tax evasion in Pakistan, and what is the challenge this creates in enabling tax authorities in tracking and reporting income?
- How do cryptocurrencies and mobile wallets create criminogenic space enabling taxes evasion, capitalizing on their features of anonymity, decentralization, and regulatory obscurity?
- What prevention systems have been implemented in countries like the United States, the United Kingdom, and the European Union to correct the issue of digital tax evasion and how effective have these systems been in enhancing compliance?
- What specific tax evasion prevention mechanisms, which are applied by the United States, the United Kingdom and the European Union can be effectively localized to the case of the United States of Pakistan, and what obstacles might emerge during the use of them?
- How will increased digital visibility and better reporting platforms help alleviate fiscal injustice in Pakistan by helping capture all digital revenues and tax it properly?

**5 Theoretical Framework**

**5.1 Routine Activity Theory (Absence of Capable Guardians)**

Routine activity theory, which has been explained by Cohen and Felson, claims that a criminal act will occur when three conditions occur simultaneously; that there is a motivated criminal, an opportune target, and the absence of a competent guardian. In the context of digital tax evasion, this framework is particularly relevant since it will shed light on how the modern industry of digital infrastructure, like cryptocurrencies and mobile payment providers, leads to the creation of an environment conducive to fiscal non-compliance. The platforms do not generally fall under the ambit of established financial frameworks and hence lack a strong level of surveillance or regulatory controls (Bello & Griffiths, 2020). The resulting lack of such so-called able guardians, including tax agencies and banking organizations, allows people to avoid paying taxes without facing the direct penalties. The decentralized nature of cryptocurrencies, through which no central benchmark is involved in tracking the transactions, makes them an enticing medium through which transactions can be evaded (Munir, Ansari, & Mahmood, 2024). More so, digital transactions are intrinsically fast and anonymous, which makes the enforcement challenges and detection opportunities worse. Therefore, Routine Activity Theory explains the way in which the digital financial environment creates the space of tax dodging by the lack of proper supervision (Mabunda, 2024).

**5.2 Regulatory Failure Theory (Law Lagging Behind Technology)**

Regulatory Failure Theory is a theory that assumes that legislative and other regulatory tools are often outpaced by technological advancement, thus putting in place governance gaps, which may be exploited by those who may have intentions to avoid fulfilling their operational requirements. The theory is especially relevant to the issue of online tax evasion. An explosion in the growth of digital financial tools, such as cryptocurrency exchanges and mobile wallets, has exceeded the pace at which many jurisdictions have been able to create regulatory structures to address them,

including in Pakistan. The traditional tax laws are usually customized within the traditional architecture of finance and show a slow course of adjustment to the rich features of the digital assets (Lev-Aretz & Strandburg, 2020). The consequence of this regulatory lag results in substantive loopholes, with income received through digital means not taxed and allowed to evade taxation, in an effort to dishonestly avoid tax systemically. The inability of regulatory organizations to improve their equipment to monitor and tax on digital transactions has enabled the people to use these loopholes to avoid the payment of tax without facing any punitive consequences. Therefore, the Regulatory Failure Theory indicates how the lack of congruity between evolution of legislations and technological progress fosters a ripe atmosphere to commit tax evasion in the digital economy (Hagemann, Huddleston Skees, & Thierer, 2018).

**5.3 White-Collar Crime Theory (Elite Digital Non-Compliance)**

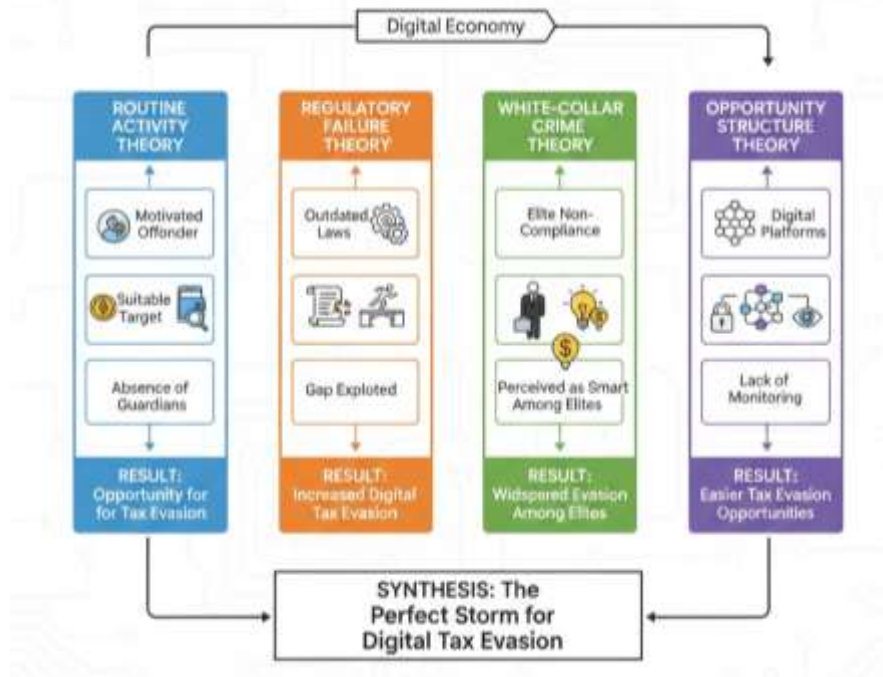
Also known as White-collar Crime Theory, according to Edwin Sutherland the focus is on criminal behavior committed by those who are in position of trust and authority usually in institutional establishments (Mahmood, Ali, & Baig, 2026). This paradigm is especially applicable to the case of digital tax evasion where wealthy and powerful participants, including entrepreneurs or investors in digital assets, will use cryptocurrencies and mobile mobile wallets to perform illegal financial transactions. These players are usually armed with resources to use in tampering with the digital financial systems to enrich themselves without facing attention (Levi, 2019). The White-Collar Crime Theory argues that such criminals do not see their activities as crimes, but as advanced financial machinations meant to maintain money. Thus, the breach of tax laws is often considered to be less harmful as compared to the traditional criminality, which supports the continuation of the behavior among elite groups. The theory explains why tax evasion among the rich has been alive and well: they resorts to sophisticated means and skills that allow them to avoid taxes and at the same time enjoy the lack of

strict enforcement procedures. This type of white-collar crime persists on a digital economy where traditional checks and balances are weakened (Meiselles, Ryder, & Giosa, 2025).

**5.4 Opportunity Structure Theory in Digital Economies**

Criminological sociologists have provided one of these pure theories; the Opportunity Structure Theory that highlights the effects of social economic set-ups in provoking or hindering criminal behaviour (Q. U. A. Malik, 2025). When applied to digital economies, the theory queries how the unique architectures of digital platforms, such as decentralised finance, mobile wallets, and cryptocurrencies, give unavailable tax evasion opportunities. Digital economies provide alternative means of transacting financial transactions that cannot be easily noticed by traditional tax institutions (Vasil’eva, Polyanskaya, Khartanovich, Milenkiy, & Tereshchenko, 2021).

Decentralised features, such as the cryptocurrencies, imply that all the transactions are recorded in the blockchain networks, not in the centralized financial institutions, making their trace by the authorities difficult. The mobile wallet technologies also facilitate peer-peer transactions, continuing to remove the financial operations out of the formal regulation frameworks. These online forms create new platforms through which people are now participating in tax evasion by allowing them to carry out transactions anonymously and bypass the conventional financial protocols (Yuan & Wang, 2018). The Opportunity Structure Theory, therefore, expounds on the existence of openings to evasion that is not present before, especially on digital platforms simply because of their very design and structure. With the growing digital economy, the possibility of evading tax is also expanding and this leads to even greater obstacles in the areas of regulatory enforcement (Biryukov & Tikhomirov, 2019).



*Figure 1 Theoretical framework of digital tax evasion*

**6 Forms of Digital Tax Evasion**

**6.1 Undeclared Crypto Holdings and Trading Gains**

There is also the emergence of cryptocurrencies that are decentralized in structure and relatively anonymous, with them becoming a relevant tool

in the evasion of taxes. Both informed and uninformed people would use digital stores like Bitcoin, Ethereum, and other back office altcoins to mask income with the eyes of tax agents (Kasuri, Mahmood, & Rasool, 2024). The most common type of digital tax evasion is the lack of the

disclosure of the owning of cryptocurrencies and the related trading skills. Lack of concrete laws governing many jurisdictions, such as Pakistan, makes such holdings go undetected, thus making players amass wealth without facing government taxation (Heidenström & Myren, 2023). The networks on which transactions related to cryptocurrencies are carried out are generally considered to be private and untraceable. Therefore, tax payers get an opportunity to hide their digital assets and subsequent income and evade payment of income tax. In some other cases, people might not be aware of their reporting obligations because the modern tax laws in most jurisdictions are having difficulty adapting to the multifaceted nature of digital finance. Enforcement poses a difficulty because transactions may be made without revealing the individuals of the presumed partners of the exchanges and crypto wallets involved. Consequently, the tax evasion through this means is spreading, especially through participants who handle a large amount of digital currencies or work with platforms that have ineffective Know Your Customer (KYC) and Anti-Money Laundering (AML) practices (Yan, 2024).

### 6.2 Income Routed Through Mobile Wallets Instead of Banks

Mobile wallet applications, PayPal, Alipay, and a host of region-specific applications have become popular as payment conduits in the formation of receipts and payments. Although such platforms provide easy channels through which people can conduct their commerce electronically, they also contribute to the avoidance of taxes since one can route their earnings through them instead of using the traditional banking system. In the case of mobile wallet applications unlike conventional bank transactions which can be easily checked by tax authorities, similar scrutiny cannot be bestowed on these transactions (Celestin, 2019). The significant number among the population uses mobile wallets to consolidate various sources of income, such as freelance assignments, sales in stores and cryptocurrency revenue, without causing the corresponding disclosure to the tax body. The combination of convenience and a relative anonymity offered by mobile wallets

complicates the obscurity of financial transactions, as the providers usually do not provide any transaction details to fiscal authorities as banks do. This does away with the taxes as recipients take funds without the surveillance or reporting requirements that are usual in banks transactions. Further, in most mobile wallet systems, strict identification steps are absent, further providing opportunities of people to camouflage their incomes and avoid taxation (Ngunjiri, 2022).

### 6.3 Fragmented Transactions to Avoid Detection Thresholds

Another common theme in digital tax evasion involves plotting the transactions strategic to place them below the level of detection that the tax jurisdictions have put in place. In many countries, regulatory laws require that significant dealings - or series of connected transactions - be indicated or reported to fiscal authorities. These limits are pre-programmed to alert of suspicious activities, such as money laundering and tax evasion. However, the taxpayers who would want to avoid such scrutiny could bypass the requirements by fragmenting payments that they are supposed to pay into small bits (van Brederode, 2019). Breaking down the transactions helps people to make sure that no one spends more than the reporting limit, thus reducing the likelihood of being caught. To give an example, rather than making a significant payment through a bank or through a mobile wallet, a participant can subdivide the payment into several smaller segments, each of which will be below the limit of detectability. This trick is often used along with cryptocurrencies, or mobile wallets, which provide the aspect of flexibility to make many smaller transfers between different platforms. In other instances, actors use several accounts or wallets to confuse financial participation even more and reduce regulatory oversight. As a result, such an evasion method is a significant threat to tax services, and it would require an advanced data mining system and multi-platform monitoring of transactions (Abd Hamid, Jahaya, Nor, Shamsuddin, & Widyaningsih, 2025).

#### 6.4 Platform-Based Earnings Without Tax Registration

With the rise of the gig economy and the growth of platform-based labor, many people can now earn money via the internet with the help of platform-based services like Uber, Airbnb, Fiverr, and similar platforms. Although this type of earnings is typically subject to taxation in traditional economies, and the revenue is often also unreported especially when the earners do not engage in a formal registration process or reporting to taxation bodies, all earnings that are realized through digital platforms often go unreported. The relatively loose enforcement systems that work in the digitized ecosystems also encourage non-compliance. Platform-based revenues in most legal systems are taxed in the same way as self-employment earnings (Weber, 2023). Nevertheless, since most of these platforms tend to work beyond the domestic borders, the participants might not be aware of their tax obligations or they can want to avoid registration so that their tax liability can be reduced. Also, some of the websites do not effectively provide adequate documentation of statutory reporting to users, which further exacerbates the barrier to compliance. The nonexistence of mandatory reporting laws placed on some platforms in particular jurisdictions, allows users to hide profits without fear of being found out. With the gig economy constantly growing, such a type of tax evasion is becoming increasingly widespread, and the tax authorities have to grapple with the complexity of regulating remuneration based on digital platforms (Ogembo & Lehdonvirta, 2020).

#### 6.5 Cross-Border Digital Value Transfers

Digital transactions also facilitate cross-border capital flows hence making it easy to avoid tax by transferring assets to countries with less restrictive fiscal policies. Such an avoidance mechanism is realized where the people move money abroad through online services or cryptocurrencies to hide taxable revenue. The anonymity of blockchain transactions together with the ease of carrying out the operation across borders without the involvement of third-party banking institutions makes the transfer of wealth simple

and the fiscal agencies are dealt with (Benjamin-Akaogu, 2024).

### 7 Pakistan Case Study

#### 7.1 Pakistan Crypto Legal and Tax Treatment

The topic of cryptocurrencies, such as Bitcoin and Ethereum has gained much worldwide interest due to the role of decentralized finance. The legislation and taxation of such digital assets are yet to be determined in Pakistan. The regulatory framework has been failing in its efforts to keep abreast with the fast-growing nature of digital currencies. The State Bank of Pakistan (SBP) has also imposed a ban on the financial institutions regarding the services associated with the cryptocurrency transaction which in effect banned the use of cryptocurrency in the official banking business. However, the sphere of cryptocurrency continues to operate in the informal economy; there are many people and companies running peer-to-peer transactions with the help of digital currencies. In terms of finance, cryptocurrencies are not considered as legal tender in Pakistan, but it is categorized as an asset (Ali, 2022).

There is no specific tax policy that is used to tax income that comes out of the investment or trade of cryptocurrencies at the moment. As a result, a regulatory gap has opened with various actors in crypto trading either not aware of or willingly ignoring the possibility of paying taxes. The Federal Board of Revenue (FBR) does not present any solid regulations concerning the reporting of crypto-gains or the infrastructure to monitor and evaluate such dealings. When there is no formal tax framework on crypto, many will take advantage of this regulatory loophole sending unreported amounts of crypto earnings into the economy, thus aiding in the spread of digital tax evasion as a phenomenon in the nation (Abid). Due to the growing popularity of digital components, especially with the more technologically oriented younger demographic, there is a strong bargain to legalize as well as tax cryptocurrencies in Pakistan. Cryptocurrency trading would not only be controlled by a clear regulatory system, but also an open system to tax crypto earnings would be in place thus providing a clear mechanism to bring digital assets under the tax system of a country.

## 7.2 FBR and Current Enforcement Limitations Role

The Federal Board of Revenue (FBR) plays a centralizing role in collecting taxes in Pakistan and is limited in its ability to implement tax compliance in the digital economy. The FBR has been faced with many challenges in the change of times to the digital world, particularly in regard to the increasing amounts of digital transactions within and without the formal banking system. The current taxation framework in Pakistan is very dependent on self-declaration in which the taxpayers are supposed to make voluntary declarations on the amount of income and asset to the FBR. Though perhaps it is sufficient to provide provision in the traditional income sources, it fails to meet the dynamic digital economy, where operations are rapidly being conducted on a platform not under equivalent supervisory scrutiny as a bank (mWaheed Muhammad Waheed, 2022). The first constraint that the FBR has to face is that it does not have a wholesome digital surveillance system that can observe income and transactions in various digital settings, including but not limited to cryptocurrency exchanges, mobile wallets, and online freelancing portals. The FBR is simply unable to track flow of money in such channels without proper tools to monitor digital assets and income, and hence the accurate assessment of taxable income.

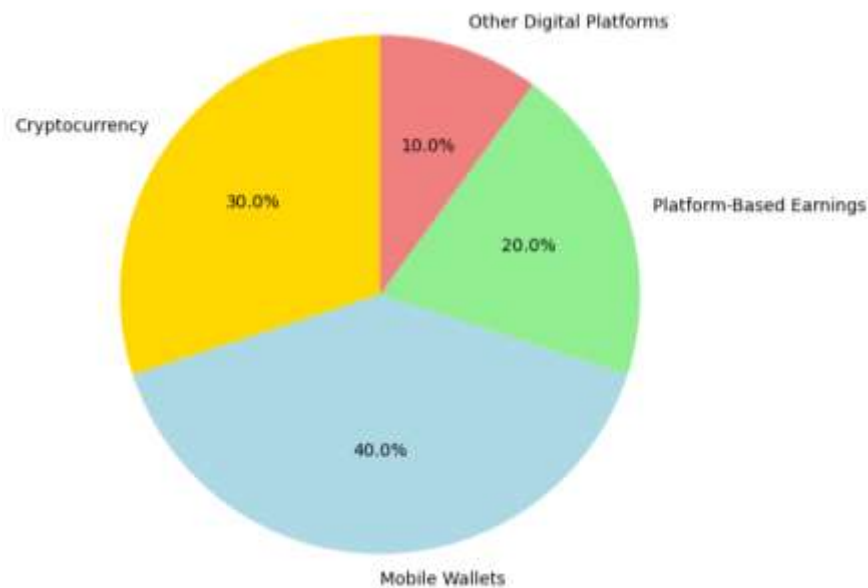
In addition, the banking infrastructure in Pakistan is not integrated with the digital economy, which makes it difficult to get the FBR access to transaction data stored on mobile wallets or cryptocurrency exchanges, which also complicates the process of enforcing it. Also, the FBR will be faced with opposition among individuals and business who use digital platforms to avoid taxes. Most constituents regard tax evasion as a way of reducing the effect of high taxes in Pakistan and some people believe that digital tax evasion is a crime victimless crime. As a result, the FBR depends on voluntary points of compliance with taxation a system that cannot be trusted at times, especially in the domain of the digital world. To improve these weaknesses, it is necessary that the FBR allocate funds to new technologies including data analytics and cross-platform reporters that

will help in strengthening the detection and enforcement of digital tax compliance (Gill & Ditta, 2022).

## 7.3 Mobile Wallets and the Informal Digital Economy

The development of mobile wallets in Pakistan has also made the problem of tax evasion in the digital economy even bigger. Mobile banking payments like EasyPaisa, JazzCash, and UPay have become popular in terms of carrying out financial transactions, especially in the rural and semi-urban areas that lack access to traditional banking services. Such sites allow people to send and receive money, pay bills, and purchase products without hiring banks and official financial institutions. Nonetheless, this has led to the growth of a formal informal digital economy where the transactions continue to go undocumented and untaxed. Many self-employed people and small business owners use mobile wallets to get payment of goods and services but do not report such payment to the FBR. Besides, mobile wallets enable people to send money to each other without invoking the reporting programs of financial centers, thus making tax implementation even more challenging. Mobile wallets are appealing to those who want to launder their money and avoid paying taxes due to the anonymity and convenience offered by mobile wallets (Ahmad, 2024).

Mobile wallets constitute the informal digital economy that is relatively unregulated and therefore it is challenging to monitor how much income to pay and possibly regulate it by the government. The mobile wallet providers in Pakistan are required to comply with the anti-money laundering (AML) and know-your-customer (KYC) opinions, however, the absence of the utilization of a mobile wallet as a part of the tax system does not allow the automatic dissemination of data about transaction data to the Central Bank of Revenue (FBR). This mismatch poses huge difficulties in ensuring that tax provision undertaken by individuals depending on the mobile wallets to conduct business works are met (R. U. Khan, Ullah, & Atiq, 2024).



*Figure 2 Pie Chart: Breakdown of Digital Financial Platforms*

#### 7.4 Information Isolation in NADRA, Banks, Wallets, and Tax Jurisdictions

The reluctance of the main institutions, in particular the National Database and Registration Authority (NADRA), commercial banks, mobile wallet operators, and the Federal Board of Revenue (FBR) to break up the data silos in this domain is one of the primary barriers to accomplishing the job of combating digital tax evasion in Pakistan. These organizations have useful databases that would make it easier to monitor and verify revenue; yet lack of proper coordination and intersystem information sharing does not allow the consolidation of the information into one centralized database that is available to the tax authorities. The example of NADRA keeps all the details of personal information of citizens including national identity card (CNIC) number. This detail might be useful in connecting the people to their income resources and money activities (T. Malik, 2022). These data sets are however not accessible to the FBR and other financial institutions to a large extent thus hindering tracing of individual sources of income. Similarly, mobile wallet apps and banks have records of transactions that may be crucial in the realization of the undeclared income, but there is

no reporting procedure that combines these aspects with the tax system. Lack of integration does not only limit the ability of the FBR to impose the payment of taxes but also makes online transactions virtually invisible. To close this gap, the government of Pakistan should increase the interoperability of its data systems. A platform that streamlines NADRA, banks, mobile wallets and the FBR will allow the tax authorities to closely monitor the digital transactions and provide full reporting and taxation of all income (Rasheed & Louca, 2024).

#### 7.5 Excessive Dependence on the Voluntary Compliance of Taxes

The tax system of Pakistan is based largely on voluntary basis where one is expected to report his/her income and assets to the FBR. This is a theoretically good approach but it does not work in practice, especially in the digital economy where some people might not want to declare how many profits they earn using cryptocurrencies, mobile wallets or online applications. The concept of voluntary compliance has created a culture that leads to a prevalence of tax evasion morally especially those individuals who are involved in the digital financial transactions that are not

under the framework of the conventional banking system. The ineffective enforcement system provides a loophole through which a large number of people are able to abuse the system by not

reporting on digital earnings. This leads to a loss of huge tax revenue, which would be otherwise used in funding the services and infrastructure of the people (e Hassan, Naeem, & Gulzar, 2021).



*Figure 3 Bar Graph: Voluntary Compliance vs. Tax Evasion Rates*

In addition, law-abiding taxpayers are subjected to unfair share in the load, contributing to the increased feeling of fiscal injustices. To solve this problem, it is necessary to shift towards a firmer and more holistic tax enforcer model that will reduce the use of voluntary compliance. The possible interventions are the compulsory reporting of digital transactions by mobile wallet systems, cryptocurrency markets, and other digital applications as well as the implementation of data analytics and automated audits to measure differences in reporting (Yan, 2024).

## 8 Comparative Jurisdictions (USA, UK, EU)

With the ongoing development of digital finance, different countries and jurisdictions have introduced different regulatory guidelines aimed at fighting tax evasion especially in the context of digital assets like cryptocurrencies. Different strategies have been implemented by the United States, United Kingdom, and European Union to address this problem, but they all focus on increasing the level of transparency, enhancing reporting processes, and ensuring that the process of digital financial activities is taxed accordingly. These frameworks reiterate the prohibition of tax evasion by the aspect of visibility and compliance

instead of criminalization, and consequently, these are aligned to a more proactive and preventative nature of digital taxation control (Hartley, 2022).

### 8.1 USA: Mandatory Crypto Reporting and IRS Enforcement

In the US, cryptocurrency taxation reporting has been a leading aspect on which the Internal Revenue Service (IRS) has been on the front line of regulating. In 2014, the IRS already published statements declaring virtual currencies like Bitcoin, as property, which subjects the transactions involving the crypto to capital taxes. Nonetheless, the enforcement issues have also become complicated due to the spread of the use of cryptocurrencies. In response to this, the IRS added compulsory cryptocurrency reporting incentives to taxpayers. The IRS additionally added to the 1040 tax form in 2020, and currently asks taxpayers on the first page whether they have received, sold, or exchanged any virtual currency in the tax year. This question is supposed to achieve the awareness of the need to report cryptocurrency income. The IRS has also become more aggressive in enforcing the compliance of crypto tax by using advanced tools to trace the digital transactions (Lydy, 2021). The specific case

of cooperation with cryptocurrency blockchain analysis companies like Chainalysis, which offer access to the possibility of tracking cryptocurrency actions on public blockchains to the IRS is noteworthy. These tools can help the IRS to trace tax evasion and fraud cases including the ones when crypto is used to hide income or carry out illegal transactions. Besides this, there have been occasions where the IRS summonsed cryptocurrency exchanges and forced them to disclose user information which will help them identify people who may be underreporting their crypto-related income. The focus placed on enforcement combined with the strict reporting standards evidences the readiness of the United States to be more visible in the crypto market and make sure that all digital resources are taxed accordingly (Rule & Flesch, 2021).

However, regardless of the progress made in terms of transparency, there are still some difficulties. The pseudonymous and decentralized cryptocurrency is also a major hurdle towards the complete monitoring and identification of every crypto-transaction especially on the decentralized exchanges and peer-to-peer systems. In spite of these challenges, the US obligatory reporting system and the enforcement measures of the IRS created a significant precedent in terms of the taxation of digital economy, which strengthens the role of compliance and reporting in digital economy (Ngunjiri, 2022).

## 8.2 UK: Asset Classification, Disclosure Schemes, and Guidance Clarity

The digital asset taxation mode in the United Kingdom has been influenced by both classification of assets, clear disclosure schemes as well as continuous updating of guidance. The HM Revenue and Customs (HMRC) perceives the cryptocurrencies as property in taxation, similar to the case with the IRS. The United Kingdom, however, has done it in a more direct manner by declaring digital assets as assets and subjecting crypto transactions to Capital Gains Tax (CGT) as practiced in the United States. This categorization will make cryptocurrencies taxable; this will mean that HMRC will also tax crypto gains, which will be treated as part of the taxable income of investments. One of the most important aspects of

the UK one is its active publication of instructions and explanations on how cryptocurrencies should be taxed. HMRC has provided comprehensive instructions on how crypto transactions ought to be taxed and this has given long-awaited clarity to businesses and individuals involved in crypto-related business. As an example, the instructions include taxing of income obtained through crypto mining, staking, and airdrop, which may be complicated and have specific tax regulations (M. T. McGowan, 2021).

Moreover, the United Kingdom has presented the Digital Services Tax (DST) in 2020 that targets taxing online businesses that have a considerable income in the UK market but do not have a physical presence in this country. This tax runs mostly through big digital-based enterprises, including social media corporations and an online marketplace, although it also shows that the United Kingdom is willing to capture the digital financial operations and that taxes apply to every kind of revenue. The scheme of voluntary disclosure is also used in the United Kingdom, and it is promoted to taxpayers to report on any reportable cryptocurrency assets or revenues that they had not declared before. Such plans give taxpayers the privilege of paying their taxes at reduced payments hence encouraging voluntary actions and increasing the overall tax transparency (M. McGowan, 2023). Although such schemes are effective in motivating people to comply, they rely on their readiness to volunteer, which is not always the case, especially in those people who engage in the massive tax evasion. The focus on enhanced guidance, categorization of assets, and disclosure schemes is evidence of how the United Kingdom aims at making the digital space in the financial field more visible and push towards less punitive actions, more voluntary ones. However, just as in the case of the United States, there are issues that accompany monitoring transactions that occur on decentralized platforms and making sure that all crypto transactions are properly disclosed and taxed (Ezeife, Kokogho, Odio, & Adeyanju, 2021).

### 8.3 EU: DAC8 Directive and Automatic Crypto-Asset Reporting

To combat the issue of digital tax evasion, the European Union (EU) has taken a holistic approach by introducing the DAC8 Directive that aims to enhance the reporting of crypto assets in the member countries. DAC8, as a subset of the larger project by the EU to create a single digital taxation system, aimed at creating transparency in the cryptocurrency transactions by requiring the crypto service providers, such as exchanges and wallet providers, to disclose the transactions involving cryptocurrencies to tax authorities. The DAC8 Directive provides that a digital asset service provider engages in the collection and sharing of specified information about their customers relating to crypto transactions, such as who buys and sells, in which amounts and in what specifics of the currency bought and sold. This information is then relayed to taxation authorities of EU member states and this adds up to a more unified and transparent reporting ecosystem. The main goal of DAC8 is eliminating the reporting gap that the cryptosphere has so far by enticing tax authorities to track the trade across the borders and track a digital asset power in the same way as a traditional financial transaction (Michel, 2023).

The main distinctive aspect of DAC8 Directive is the focus on automatic reporting. Therefore, transaction information will be available to the tax authorities without the need to depend on voluntary submission by taxpayers. This effect removes the reporting burden on taxpayers and, as a result, this is a way of ensuring that a higher percentage of transactions are properly recorded and taxed. The mandatory report provision is estimated to increase compliance and prevent tax evasion because it removes the possibility of people hiding their crypto income under the regulator. The implementation of DAC8 is also an important difference toward increased collaboration among the EU member states in combating digital tax evasion. The EU plans to make crypto transactions legally obligatory exchanged between tax authorities, as such a move will create a more coherent and efficient regulatory framework to monitor cross-border digital financial operations. International cooperation of

this sort plays a crucial role in the fight against tax evasion as it is known that cryptocurrencies and other digital assets are not always subject to the realities of the standard financial system and thus it becomes challenging to trace and control it at the national level alone (Van de Vijver, Scarcella, & Tomo, 2024).

### 8.4 Focus on Prevention Through Visibility, Not Criminalization

The similarity in the regulatory approaches of USA, UK and the EU boil down to their focus on prevention mechanisms achieving higher visibility over criminalization. Such jurisdictions are currently in vigor to make digital financial transactions more transparent to ensure that digital assets are properly reported and taxed. This is done by enhancing reporting requirements, increasing the amount of data collected and creating a cross-border collaboration to ensure that these nations are able to establish a regulatory environment less conducive to tax evasion and at the same time making compliance easier. In contrast to relatively harsh strategies in which the primary focus is made on the prosecution of the offenders, a visibility-based strategy aims at the prevention of tax evasion even before it takes place. Such proactive measure makes voluntary disclosure of their income by taxpayers encouraging as well as complicates the practice of hiding assets or income by individuals against the tax authorities (Zúñiga Rodríguez, 2023). Use of digital tracking software, compulsory reporting and auto-data sharing systems are very important in this plan as it will mean that the tax authorities have the means with which they can locate and curb tax evasion real-time. These jurisdictions are also moving towards a more modern, efficient and equitable approach to taxing the digital assets by prioritizing visibility and creating transparent reporting systems. According to this approach, digital tax evasion should not be criminalized as this is not a complete solution, but a more holistic approach to enforcement is necessary, including prevention, training and partnership between financial institutions, governments, and digital platforms to ensure long-term compliance (Rumasukun & Noch, 2023).

*Table 1 Comparison of Digital Tax Evasion Prevention Models (USA, UK, EU)*

Jurisdiction	Regulatory Approach	Key Measures	Focus	Challenges
USA	Mandatory reporting of crypto transactions; IRS enforcement; John Doe summons for exchanges	Mandatory crypto reporting, IRS investigations, collaboration with blockchain analysis firms	Prevention through visibility; aggressive enforcement	Decentralized nature of crypto; difficulties tracking decentralized exchanges and peer-to-peer transactions
UK	Asset classification for cryptocurrencies; clear tax guidance for crypto transactions	Capital Gains Tax (CGT) on crypto; voluntary disclosure schemes; Digital Services Tax (DST)	Focus on clarity of tax rules; promoting voluntary compliance	Reliance on voluntary disclosure; gaps in enforcement of informal economy transactions
EU	DAC8 Directive for mandatory crypto-asset reporting across member states	Automatic reporting of crypto transactions by service providers; cross-border data sharing	Prevention through visibility via automatic reporting	Ensuring cross-border cooperation; tracking decentralized transactions

## 9 Comparative Prevention Models

In the modern digitalized economies, the intricacy and ubiquity of electronic financial operations, have prompted different regions across the globe to generate and enforce preventative strategies to curb evasion of taxation. These models pinpoint increased openness, high-quality adherence, and the encouragement of international cooperation to resolve the unique problems of digital assets, including cryptocurrencies and mobile wallets. The United States, the United Kingdom, and the European Union have all developed noteworthy measures, the latter being associated with different degrees of enforcement, regulation, and exchange of information. The best strategies usually combine technological innovation, legal requirements and transnational collaboration and thus create an all round system of curbing digital tax avoidance (Bourton, 2021).

### 9.1 Exchange-Level Reporting Obligations

Among the most prominent prevention measures in regard to digital tax evasion an exchange-level reporting requirement must be listed. According to this strategy, cryptocurrency exchanges and

digital asset platforms are required to provide transaction information, personal information and trading to tax officials. In the US, for example, the Internal Revenue Service has issued guidelines which mandate exchanges to report exchanges that exceed specified limits, similar the way the large cash transactions of traditional financial institutions are required to be reported. The initial goal of those obligations is to enhance transparency as well as to make sure that tax authorities will have access to the information about digital assets movement in a timely manner (Cong, Li, Tang, & Yang, 2023). Exchanges hold an identifiably advantageous standpoint amid the recording of fundamental data on user transactions, including the names of buyers and sellers, the quantity of transactions, and the types of cryptocurrencies that are being participated in. These disclosures will help the tax authorities to recognize taxable transactions like capital gains on crypto trades and income earned in carrying out ancillary activities such as mining or staking. With this required systematization of gathering and reporting this information, authorities will be in a position to identify and

correct unexplained or hidden income on digital transactions(Vaivade, 2020).

In the UK, the Her Majesty Revenue and Customs also provides the reporting requirements of exchanges and wallets providers. Its aim is to have a detailed record of the overall activity of origin of cryptocurrency, which will hold individuals and businesses responsible to report the income they earned in relation to crypto. These norms reduce the level of anonymity that often accompanies cryptocurrency transactions and enable officials to examine financial operations with more effectiveness. However, this approach faces difficulties, such as implementing reporting obligations of decentralized exchanges (DEXs), in which case peer-to-peer transactions undermine surveillance activities(Lessambo, 2020).

### 9.2 Integration of Digital Wallets into Tax Monitoring

Mobile wallets and cryptocurrency wallets are among the key tools in the digital transactions especially those players that are aiming at going round the neo-liberal banking networks. In most instances, users use such wallets without being formally reported to tax authorities hence this presents huge chances of tax evasion. To fill this gap, creating digital wallets as a part of new tax monitoring systems has become a fundamental component of many prevention frameworks. Indicatively, the adoption of the Directive 8 (DAC8) in the European Union represents a significant move toward adopting the digital wallets in taxation. According to this directive, the providers of digital asset services such as wallets are taxed to report the transactions that customers do to the tax authorities. It is a more structured environment that is being formed by this regime whereby digital wallets are handled as bank accounts, and the transactional information is stored and reported to the appropriate authorities in a well-organized manner(Van de Vijver et al., 2024).

Implementing the concept of digital wallets in the tax monitoring system will allow the government to monitor the financial transactions of various persons and organizations more efficiently within various platforms. Such integration suppresses the possibility of the presence of digital assets in

personal wallets, which allows minimizing the volume of hidden income. Since wallets are gradually moving under the same regulation as other banking institutions, they are subject to the same scrutiny as conventional financial institutions, which in turn guarantees that all digital incomes are reported and taxed appropriately(Celestin, 2019). Such a strategy not only gives advantages to tax authorities but equally provides them with a clear-cut information on what individuals and enterprises need to report on their income earned through the digital platforms. It helps in achieving compliance through streamlining and making the reporting process easy to understand. Nonetheless, it has been difficult to regulate the sheer number of transactions that pass through digital wallets and a challenge to the regulators that less visible platforms, albeit smaller platforms, should do(Larikaman, Salehi, & Yaghubi, 2025).

### 9.3 Integration of Digital Wallets into Tax Monitoring

Cryptocurrency wallets and mobile wallets are essential in digital transactions mainly to those who are interested in avoiding the traditional banking systems. In most instances, users transact their online financial operations over such wallets and no official reporting to the tax authorities is made and thus, the possibility of tax evasion is enormous. To seal this divide, the idea of incorporating digital wallets into tax monitoring systems has become an important element in most prevention models. As an example, the adoption of the DAC8 Directive in the EU is a huge move in the tax systems integration of digital wallets. Under the directive, the digital asset service providers such as the wallet providers are expected to disclose the transactions of customers to the tax authorities(Michel, 2023). This will make the environment a bit more transparent and clear as the digital wallets will be treated similar to the conventional bank accounts with the information of the transactions being swept and reported to the corresponding authorities. Through the implementation of digital wallets in the tax monitoring system, the tax authorities can be in a better position to monitor the financial activities of individuals and businesses across the various

platforms. Such integration assists to limit chances of digital possessions to be concealed in pockets, upon which they may not be detected otherwise. With the wider adoption of wallets at the regulatory level, it is expected to be equally regulated as the conventional banking systems, which eventually contributes to the elimination of the unreported digital income under taxation (Ogembo & Lehdonvirta, 2020). This will not only be beneficial to tax authorities but it will also give individuals and businesses an explicit idea on the obligation to report income earned in digital platforms. It fosters compliance by simplifying the process of report-making and reducing the level of directness. The problem is that, however, it is difficult to control the number of transactions taking place across digital wallets and make sure that less noticeable smaller platforms do not violate regulatory frameworks.

#### 9.4 Risk-Based Audits Using Data Analytics

This type of audit, which is based on risk, is now an inseparable part of the process of tax enforcement in the digital world. With the help of data analytics, tax authorities are able to determine the presence of high-risk transactions or individuals who are likely to evade taxes even when these activities are made on decentralized or peer-to-peer services. Data analytics enables the authorities to interpret big amounts of transaction data to find patterns of possible tax evasion. In the USA, IRS has used data analytics tools more often to trace online transactions, especially those which could involve cryptocurrencies (Ezeife et al., 2021). The IRS relies on blockchain analysis software to trace the cryptocurrency transactions and find out cases when people or other organizations can underreport. Risk-based audits are based on the high-value transactions, the irregularities, or other peculiarities in reporting, and supporting tax authorities in the sphere with the greatest potential of tax evasion. These audits are more effective and economical comparing to traditional audits since tax authority will be in a position to focus on those cases that will lead to high tax recuperations.

In the UK, HMRC also employs the tools of the same kind in order to track the online financial operations and detect irregularities in the reported

revenues. Cryptocurrencies audits and mobile wallet audits Risk-based audits permit the officials to review cryptocurrency dealings, platform-based earnings, and mobile wallet dealings that would otherwise be unnoticed. This is the special focus method which makes tax collection more effective and does not require the use of blanket audits but still the high risk situations are handled. The merit of the risk-based audits is that it is more data-driven and is less prone to omitting cases of tax evasion. Nevertheless, there are still issues of making sure that these audits will reflect all the essential data and that individuals or businesses who are taking part in lesser scales of evasion will not be neglected. Data analytics will keep on changing and becoming crucial in averting tax evasion as the digital transactions evolve to become more complicated (Yuan & Wang, 2018).

#### 9.5 Voluntary Disclosure with Strict Future Enforcement

Voluntary disclosure programs will provide a person and the business with an opportunity to emerge and declare earlier income without the fear of hitting tough punishments. Such programs come in especially handy in the realm of digital tax evasion, as these people might lack awareness of whether they are obligated to pay taxes or have not previously reported crypto-related income as well. Tax revenue is encouraged to be voluntarily disclosed, and through this, the tax authorities will be able to collect some revenue that would have been undetected. The USA and the UK have adopted voluntary disclosure of those who do not declare their incomes in cryptocurrencies. In the USA, the IRS has the Offshore Voluntary Disclosure Program (OVDP), which does not impose such harsh sanctions, allowing one to report unaccounted foreign income in the past, including crypto assets (M. McGowan, 2023). This is aimed at stimulating the taxpayers to volunteer, thus minimizing the total rate of tax evasion. In the same manner, voluntary disclosure programs in the UK allow the taxpayer to report on any cryptocurrency holdings or digital income which they have not reported previously. In order to persuade people to abide by the tax laws, these programs usually have lenient penalties given in exchange of complete disclosure. The voluntary

disclosure is also of special importance in the digital economy, when reporting on and tracking the digital resources may be subject to errors and misunderstandings. But, as much as voluntary disclosure schemes can contribute to solving the tax evasion problem, it depends on individual disclosure. Enforcement is therefore still a significant aspect of the strategy whereby those not participating in the disclosure process are the ones who will face the enforcement. In response to this,

law enforcement agencies impose rigid enforcement measures in the future by making sure that non-adherence is subject to stiff punishment in future. This is a two-pronged strategy of promoting compliance (voluntarily) and the threat of harsh and punitive measures (in the future) to the point of creating a culture of transparency and accountability (Khalid & Shaheen, 2023).

**Table 2 Comparative Prevention Models of Digital Tax Evasion**

Prevention Model	Description	Jurisdictions Implementing	Benefits	Challenges
Exchange-Level Reporting Obligations	Crypto exchanges must report transactions to tax authorities for transparency.	USA, UK, EU	Better tracking of digital assets for tax purposes.	Enforcement challenges with decentralized exchanges.
Risk-Based Audits Using Data Analytics	Uses data analysis to identify high-risk digital transactions for targeted enforcement.	USA, UK, EU	Improves audit efficiency and resource allocation.	Reliability of data tools; emerging evasion tactics.
Cross-Border Information Sharing	Shares financial data across borders to track international crypto transactions.	USA, EU, OECD countries	Enhances international cooperation and transparency.	Concerns over privacy and differing tax regulations.

**10 Prevention Strategies for Pakistan**

With digital financial transactions rapidly growing in Pakistan, it has now been more important than ever to come up with robust measures that can be used to guarantee taxation and reduce taxes avoidance in the digital economy. The growth of cryptocurrencies and mobile wallets and web are posing serious threats to the existing taxation framework in Pakistan in terms of correct seizure of digital revenue. Based on that, a few strategic steps can be suggested to strengthen the tax enforcement system, catalyze compliance, and improve digital financial transactions transparency. Some of the strategies that Pakistan can employ to enhance its digital tax system include:

**10.1 Mandatory Disclosure of Crypto and Digital Wallets**

The demand to declare decryptions of cryptocurrency and transactions of mobile wallets is one of the most promising moves towards curbing the problem of digital tax evasion in Pakistan. An obligation of this nature would force individuals and businesses to disclose the value of their cryptocurrency and digital wallets balances to the Federal Board of Revenue (FBR). By making disclosure mandatory, Pakistan would gain a better picture of wealth posted on the digital economy. This would include income realized in crypto trading, staking or any other crypto based activity. Introducing the compulsory reporting would undermine the possibility to hide the assets

in the private wallets or transactions, which would allow tax authorities to receive adequate information to trace operations and ensure that the digital income is taxed accordingly (I. Haq & Bukhari, 2020). To increase compliance, the cryptocurrency exchanges and wallet services providers might be obligated to disclose transactions and account holdings to the FBR, in the same manner as traditional financial institutions are obliged to disclose large transactions.

### 10.2 Legal Recognition of Digital Assets as Taxable Income

The next important step towards formalizing taxation on digital financial activities in Pakistan is the legal status of digital assets of the cryptocurrencies and digital platform-generated earnings as taxable income. Currently, the cryptocurrency taxation shows an atmosphere of ambiguity, and there is no settlement on the taxation of crypto-related income. Pakistan would tax cryptocurrency trading, freelance platform income, and other digital-related activities by establishing a legal framework that would infer the taxable income to digital assets. This legal authenticity would allow the FBR to explicitly define the manner in which taxes should be imposed on electronic assets and the manner in which certain regulations should be given to report and meet tax liabilities on crypto-related earnings. This form of legislation would also play an educative role where taxpayers would be made aware of their responsibilities and the malpractice of using digital financial tools to dodge taxes would be checked (Q. A. U. Haq & Atta, 2019).

### 10.3 CNIC-Based Data Integration Across Institutions

The ability to integrate data between institutions such as the National Database and registration Authority (NADRA), banks, mobile wallets and the FBR comes out as a solution of significant importance within augmenting tax compliance in Pakistan. The use of Computerized National Identity Cards (CNICs) to tie together the financial operations of individuals within these institutions would create an all round overlay of financial behavior of every taxpayer in both offline

and online platforms. An integration of this nature would give the tax authorities the ability to track revenues obtained through a variety of means including mobile wallets, bank accounts, and cryptocurrency transactions. The association of CNICs to all financial services would allow the FBR to determine inconsistencies between the reported revenue and online presence, thus reducing the likelihood of tax evasion. Also, this trend of integration would simplify the tax reporting procedure, which would make it easier to access financial reports and enhance the adherence of both individuals and businesses (Omer, 2025).

### 10.4 Simplified Digital Tax Regime for Freelancers and SMEs

An improved digital tax system focused on freelancers and small to medium-sized businesses (SMEs) would motivate more people to comply as part of the onslaught of digital workers in Pakistan. There are many freelancers and smaller firms that are in the informal sector and can be unaware of their tax filing or simply too tedious to withstand the complicated tax structure. The implementation of a simplified, plain tax system to freelancers and SMEs would ease the extreme burden on small digital ventures but this would provide motivation that will ensure compliance with tax laws. As an example, a tax rate on digital income could be applied at a flat rate, simplified reporting requirements, and online platforms of tax filing system could help make it more friendly and effective. This would encourage more freelancers and small businesses to report their earnings and pay taxes hence lowering the rate of tax evasion by such segments (Caplan, 2022).

### 10.5 Digital First-Time Compliance

Pakistan may also use a set of incentives aimed at first time tax players in the digital sphere to further encourage digital forms of tax payments. These subsidies could include less punishment, tax credits, or partial amnesty to individual and companies that voluntarily report their digital resources and income on the first occasion. Incentives would encourage the government to attract those who have not been paying taxes in the past to voluntarily come out and join the formal

taxation system. This might also enhance the confidence between the tax payers and the FBR since the people and companies would feel that the system is supportive and not punitive. With the ongoing increasing digital transactions, it will be obviously important to develop a clear channel of compliance on the first-time to reduce the total tax gap (M. S. A. Khan & Khalid, 2021).

## 11 Significance of the Study

The relevance of the study is justified by the fact that it adds to the dynamic body of criminology, especially concerning digital financial crime. Taking criminological theory and applying it to digital tax evasion, the study provides a complex insight into the idea of how the latest technologies, like cryptocurrencies and mobile wallets, contribute to carrying out illegal financial transactions. This expanded view is critical in the development of more powerful policies and interventions that would curb the problems of digital tax evasion which is a fast becoming issue in the modern digitizing environment. In addition, the study will provide empirical data that can support tax-policy change by explaining the weaknesses and limitations seekable in the current tax legal framework used in Pakistan. By examining the way in which digital financial operations cannot be subjected to traditional rules and regulations, the study can find the way in which the tax system can be updated to better reflect the digital age by ensuring that more of the digital income is collected by this system and will provide a means of designing effective and sound taxation policy that will be more applicable during the era of digitalization. The exploration of the aspects of inequality and financial unfairness is also questioned. Digital tax evasion creates an unfair centralized pressure on other taxpayers who have to comply with the rules, therefore further adding bias to the digital economy. With these inequalities pointed out, the study supports the use of a more fair taxation regime that makes all income streams, including digital income sufficient, to support national revenue. Also, the study fills in the disciplinary gap that has always existed between law, technology and criminology and advocates an active multidimensional approach to the understanding and prevention of

digital tax evasion using single-discipline descriptions. Lastly, the results have specific implications to major stakeholders, such as the Federal Board of Revenue (FBR), Ministry of Finance, and policy makers, as they will design the approach to enact practical and effective responses to control the digital economy and combat tax evasion.

## 12 Expected Outcomes

- The results that are expected of this research include a methodical outline of the various modalities that are employed in the digital tax evasion and therefore providing useful information on the approach and strategy that individuals and businesses are employing in the digital economy to mask taxable earnings. By clarifying these processes, including the unreported cryptocurrency ownership up to the turnover of revenues through mobile wallets and scattered over fragmented transactions, the study would provide an in-depth insight into how digital finance is used to launder money in the form of tax evasion.
- Another significant effect is the regulatory gaps found in the fiscal system of Pakistan. The discussion will highlight the areas where the current policies of the country have failed to capture the digital financial transactions, especially those involving the cryptocurrencies and mobile wallets. The identification of these gaps will provide the research with practical advice that can be used to enable the optimization of regulatory frameworks, thus guaranteeing that digital incomes should be reported and taxed systematically.
- Furthermore, the research study postulates a pragmatic preventive model that is based on empirically proven models in other jurisdictions including the United States, United Kingdom, and European Union. The following framework will include suggestions regarding the mandatory reporting on cryptocurrency, data integration advancement among different institutions, and the risk-based auditing procedure. The broad goal is to come up with a context-sensitive approach that appeals to Pakistan

in its attempt to better barricade the menace of digital tax evasion.

- Lastly, the study will contribute significantly to the academic field of research as well as to the development of the policy. The study fills an opportune lacuna in current criminological literature by employing criminological theories to explain the phenomenon of digital tax evasion which presents a new analytical horizon of financial crime in the digital age. Simultaneously, the results will be used when making policies, which will enable creating more cost-effective, fair, and modern tax rules that will be more capable of addressing the demands of the digital economy.

### 13 Policy Relevance

The current study provides significant policy implications on the redesign of the tax regime in Pakistan, which present a workable piece of advice to the Federal Board of Revenue (FBR). Defining the modalities of digital tax evasion and highlighting weak areas in regulatory measures, the study creates a strong sense of the urgency of the radical changes in the FBR. The lessons gathered in this paper will potentially facilitate the contemporary update of the systems of Board to monitor and tax digital earnings, thus facilitating its adherence to the changing environment of international financial transactions. The paper also recommends the modernization of the Pakistani income tax laws, which would make them more sensitive to the needs of the digital economy. As digital financial platforms spread out the digital currency has rendered the existing legislation, previously designed to suit traditional sources of income, increasingly inadequate. The research ensures that the legal apparatus is comprehensive and proactive by offering a systematic guideline of the restructuring of the laws concerning the income tax, including the consideration of new sources of income, including cryptocurrencies and mobile wallets. Another relevant advantage of the research is the fact that the tax policies in Pakistan are in tandem with the international standards of compliance. In a comparative study of the effective policies implemented by jurisdictions like the United States, the United Kingdom and the European Union, the study provides a prescriptive map

through which Pakistan can strengthen its tax compliance system. Such congruence increases the standard of Pakistan in the global financial zone and enhances its ability to reduce cross-border digital tax evasion. Ultimately, the research builds on the faith of citizens towards the tax system. The growing openness of the digital economy, and the imposition of compliance through modern, data-driven systems, will be expected to cultivate a higher degree of guarantees to taxpayers of fairness and effectiveness of the tax regime. In reversing the evasion of taxes, the study develops a positive relationship between the government and its citizens; a condition that is essential in long-term macroeconomic stability.

### 14 Ethical & Social Dimension

Digital tax evasion is a substantial type of socio-economic damage that compromises the impartiality of the taxation system and has a negative influence on the macro-economy. Despite the fact that it may be trivialised by some of the observers as a simple violation of the law, the given practice holds a considerable implication on the community resources and equality. It is through the use of digital facilities to bypass taxation that individuals and companies promote an unfair fiscal model where the responsibility of funding the state objectives and services falls on compliant payers disproportionately. Thereby, the tax-evading actors enjoy the perks of infrastructure, healthcare, and education without paying the right proportion to their fees. Digital tax evasion, therefore, harms society because it deprives it of the resources needed in the equitable distribution of such services. The harmful effects of digital tax evasion on the developing patterns and provision of services to the citizenry are both significant. These revenue streams are very crucial because the governmental programmes and civil infrastructures require finances. When the masses avoid paying taxes, the government starts facing budgetary deficits and the deficit in effect instigates reduction of basic services such as health programmes, education and development projects. The individual vulnerable populations affected by these austerity measures in high proportion are those dependant on the public services in order to maintain their wellbeing. The

more the government is being drained through tax evasion, the more inequality is being entrenched and the national development is crippled.

Further, digital tax evasion places an unjustified load to those citizens who are salaried and are respected in terms of financial compliance. Formal sector in Pakistan as in most jurisdictions is taxed by imposing payroll deductions on employees and through self-declarations, which force a large proportion of the income earned on the government by the salaried workers. The informal or digital economy will increase tax evasion by actors and this forces the taxpayers who comply to pay an even greater proportion of the tax. This process creates a sense of unfairness and inequality, whereby the participants in the game who are legal are punished, whilst those who are not working within the framework enjoy the benefits of the process. This sort of unfairness may destroy the confidence of people in the tax machine, it creates bitterness and anger in law-abiding citizens, which in the end negatively affects the efficiency of the entire fiscal system. To conclude, tax evasion in the digital form is not just an aberrant economic behavior, but a social and moral issue. It creates a state of fiscal imbalance, robs the society of important resources, and creates unequal strain on the least defiant people in the society. The solution to these ethical issues requires a holistic and encompassing tax policy scheme, whereby individuals and businesses are given an equal share of common good and distribution of the load of state funds is done with fairness.

### Conclusion

To sum up, the rise of digital finance and its intersection with tax evasion creates complex dilemmas regarding the work of the fiscal apparatus in Pakistan thus necessitating the revision of regulatory strategies, the strengthening of enforcement systems, and the requirement of cross-border cooperation. With only weak digital elements such as cryptocurrencies and mobile wallet systems significantly on the rise, they will uneasily reveal gaps in the existing tax and regulatory systems in Pakistan. Having conceded these gaps through systematised revelation of digital resources, enhanced integration of

financial data between various institutions, and the rationalisation of tax systems of each of the small-to-middle-income earners and those in self-employment, Pakistan can enhance its tax compliance machineries thus securing that all sources of income, be it those that are in the digital ecosystem or the traditional economic sector, all consider equitable levation. Moreover, the ability to unleash advanced analytics and promote cross-border exchange of information can also significantly strengthen the ability of Pakistan to track the online flow of financial resources and reduce the rates of tax evasion. This analysis also outlines the ethical and socio-economic consequences of evading tax in the digital arena and showcases its inclination to expand fiscal inequality and create an unfair fiscal burden to hard-working taxpayers. The digital tax evasion does not only weaken the public purse but also undermines the holiness of the tax system, undermining the confidence of the people who ranked them below the indispensable goods offered by the government. The adoption of the promoted preventive measures can provide Pakistan with an avenue leading to more equal tax system, which is consistent with the international practice, promotes compliance, and leads to social equality. The presented instruments have the potential to transform how Pakistan conceives digital tax governance, thus making it a template on which to base emerging economies ideas on how to ensure that digital epoch is managed in ways that are multifaceted.

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