



Fight against Shell Companies

Why in news?

\n\n

Investigative agencies have found that about Rs.4,000 crore of cash was deposited in shell companies following the demonetisation.

\n\n

What are Shell Companies?

\n\n

- \n
 - It is a non-trading company used as a vehicle for various financial manoeuvres.
- \n
 - They are paper companies incorporated around the world without any tangible business.
- \n
 - Often many such shells have a common registered address with 'dummy' directors who may be real persons but are untraceable or unrelated to the business.
- \n
 - In Kolkata, Delhi and other cities, over 300 companies can be found registered at one single address, all for facilitating illicit transactions.
- \n
 - Suspicious transactions are often below the threshold of automatic banking software triggers.
- \n
 - In some cases, 'seed' money is introduced as capital in one shell which is then passed on to other shells in a single day in a single branch.
- \n
 - Thus, each company gets identical sums as capital, which is instantly lent or invested in another company.
- \n

- The exercise is repeated five to ten times to create the illusion of real transactions and multiplying money.
\n
- In cases involving forex, large remittances are sent out as payment for fictional imports, advances or commissions, later moved into other shells and then brought back as receipts (called **round-tripping**).
\n
- In India, shell companies have traditionally been used for rotating and siphoning off funds through fictitious sales, inflated purchases, unjust commissions or for creating equity for individuals operating behind the scenes.
\n

\n\n

How prevalent are they?

\n\n

- In May 2016, investigations revealed that 24 ghost companies operating from a single branch of a leading public sector bank in Delhi were used to cheat the Government and banks of several crore rupees.
\n

\n\n

- The leaked Panama Papers (2016) exposed a global network of shell companies operating from tax havens used for moving assets and cash from one country to another illegally.
\n
- An OECD report said that shell companies are increasingly being used for illicit purposes.
\n

\n\n

- The SIT on black money says such manipulation of stocks and creation of non-taxable capital are gaining popularity.
\n
- SIT points out that investments from the Cayman Islands, a tax haven, to India amount to Rs.85,000 crore, reflecting the role of shells operating from tax havens in **money-laundering**.
\n

\n\n

What should be done?

\n\n

- \n
- Cash deposits should be limited to Rs.3 lakh to make large deposits or layering of cash difficult, if not impossible.
- \n
- Real-time monitoring and detection of unusual transactions should be done.
- \n
- **MCA 21**, the portal in which all corporate filings reside, is a good starting point. It can be mined for common directors, common registered addresses, little business and suspicious transactions to create alerts.
- \n
- A central **KYC registry** of transactions will also be useful.
- \n

\n\n

- \n
- Technology plays a significant part in surveillance and oversight.
- \n
- Robust business rules embedded in the artificial intelligence (AI) of machines will help both pre-emptive and preventive actions.
- \n
- Swift and exemplary punishment is equally essential.
- \n
- Apart from those directly involved, others in the chain of activities should also be held culpable.
- \n
- The current levels of conviction for white-collared crimes, estimated at 0.006 per cent by some experts, needs to improve significantly.
- \n
- A strong deterrent mechanism brought about by diligent investigations and quick judicial decisions will produce the desired result.
- \n

\n\n

\n\n

Source: Business Line

\n



IAS PARLIAMENT

Information is Empowering

A Shankar IAS Academy Initiative