Fight against Shell Companies

Why in news?

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

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What are Shell Companies?

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- It is a non-trading company used as a vehicle for various financial manoeuvres.
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- They are paper companies incorporated around the world without any tangible business.
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- 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.
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- In Kolkata, Delhi and other cities, over 300 companies can be found registered at one single address, all for facilitating illicit transactions.
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- Suspicious transactions are often below the threshold of automatic banking software triggers.
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- 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.
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- Thus, each company gets identical sums as capital, which is instantly lent or invested in another company.
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- The exercise is repeated five to ten times to create the illusion of real transactions and multiplying money.
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- 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**).
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- 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.
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How prevalent are they?

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- 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.
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- 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.
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- An OECD report said that shell companies are increasingly being used for illicit purposes.
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- The SIT on black money says such manipulation of stocks and creation of non-taxable capital are gaining popularity.
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- 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**.
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What should be done?

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- Cash deposits should be limited to Rs.3 lakh to make large deposits or layering of cash difficult, if not impossible.
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- Real-time monitoring and detection of unusual transactions should be done.
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- **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.
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- A central **KYC registry** of transactions will also be useful.
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- Technology plays a significant part in surveillance and oversight.
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- Robust business rules embedded in the artificial intelligence (AI) of machines will help both pre-emptive and preventive actions.
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- Swift and exemplary punishment is equally essential.
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- Apart from those directly involved, others in the chain of activities should also be held culpable.
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- The current levels of conviction for white-collared crimes, estimated at 0.006 per cent by some experts, needs to improve significantly.
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- A strong deterrent mechanism brought about by diligent investigations and quick judicial decisions will produce the desired result.
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Source: Business Line

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