

# The Role of Shell Companies During Demonetization

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## ABSTRACT

Shell companies help big company to convert black money into white money. Many big company create shell company to avoid tax. Shell company is a corporate entity without significant assets or without active business operation. After demonetization 2500 shell company registration have been canceled. Many shell company carryout illegal transactions, park black money and sometimes acts as facilitators of money laundering. Money laundering is dealing with money obtained from illegal to criminal ways.

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## I. INTRODUCTION:

On the evening of 8th November 2016, the Prime Minister of India announced one of the boldest moves in the history of India's socio-economic scene – demonetization of old Rs. 500 notes and Rs. 1000. Soon after, new notes of Rs. 500 and Rs. 2000 notes were pumped into the economy. The higher denomination banknotes in Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in the year 1954 and these banknotes were again demonetized in January 1978. So the last time demonetization was done in India is almost 36 years ago.

To take profit of demonetization, shell companies helped big companies to convert black money into white. Many big companies create shell company to avoid tax. Shell company is a corporate entity without significant assets or without active business operation. According to the report, infrastructure companies, which need large amounts of cash to pay off bribes to everybody from local politicians to Naxalites, are the ones that mostly enter into such deals. They sign a cheque to one such shell company, and this is accounted as payment or commission. This company returns the money in cash, which the infra company uses to pay bribes. Thus white is converted into black.

Now, the shell company shows that this money is paid off to a few other shell companies as payments towards contractual fulfillment. Interestingly, all these transactions are only on paper. They never take place in reality. These shell companies are also ready for takeovers by other companies, which want to turn black money into white. For this, these shell companies are bought at huge discount, say at Re 1 per share, while the book value is Rs 50 per share.

## II. OBJECTIVES OF STUDY

- the role of shell companies during demonetization period
- The role CA s in Shell companies
- Demonetization in India

## III. METHODOLOGY

The study is based on secondary sources of data/ information. Different books, journals, newspapers and relevant websites have been consulted in order to make the study an effective one. The study attempts to examine the role of shell companies during demonetization.

#### IV. SHELL COMPANAY ROLES IN BLACK MONEY

Shell company is a corporate entity without significant assets or without active business operation. They are often created to avoid taxes. It can not be said that shell companies are illegal. Shell companies remain untraceable and happen to be the vehicle for money launderers, bribe givers and takers, tax evaders and financiers of terrorism in Jammu and Kashmir. A typical case in point is a company called Ganga Builders, which attracted attention because of its connections with controversial Andhra Pradesh politician Jagan Mohan Reddy. Floated in 1982, nothing is known about the company, the report says. On 14 February, 2008, as many as 18 companies invested in Ganga Builders, which by and large went unnoticed. But another investment that happened on the same day caught the tax authorities' attention. This involved Jagan Reddy's Jagathi Publication, which saw 17 companies investing about Rs 121 crore. And the interesting fact is that most of the investors in Ganga and Jagathi are same but could not spot any office in its address. Kolkata is a paradise of such shell companies. It is interesting to note the number of new companies registered with address in West Bengal. Kolkata has always been a hub for CAs, but with the industrial decline of the city, there is less work and many CAs have de facto entered this business.

**Action Taken By Govt. Against Shell Company:** The government's move is a clean-up exercise mainly targeting shell companies suspected of money laundering in the aftermath of the 8 November demonetization of high-value currency notes. In a major clampdown against black money, the government today directed freezing bank accounts of more than 2.09 lakh companies whose names have been struck off from the records and said action would be taken against more such firms. The names of 2,09,032 companies have been struck off from the register of companies under Section 248 (5) of the Act. The existing directors and authorised signatories of such struck-off companies will now become ex-directors or ex-authorised signatories. Section 248 of the Companies Act -- which is implemented by the corporate affairs ministry -- provides powers to strike off names of companies from the register on various grounds including for being inactive for long. The government decided to bar as many as 300,000 directors of companies that have defaulted on statutory compliances from serving on the boards of other firms to improve corporate governance and check financial irregularities through the use of shell companies.

**Demontization Effect On Shell Company:** The demonetization of the highest denomination currency notes is part of several measures undertaken by the government to address tax evasion, counterfeit currency and funding of illegal activities. The higher denomination banknotes in Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in the year 1954 and these banknotes were again demonetized in January 1978. On the evening of 8th November 2016, the Prime Minister of India announced one of the boldest moves in the history of India's socio-economic scene – **demonetization** of old Rs. 500 notes and Rs. 1000. At least RS 3900 crore was laundered through shell companies between November and December after the ban on high value banknotes, investigations by central agency have found. The probe by the serious fraud investigation office has also identified at least 54 people who helped 559 beneficiaries with laundering illicit cash.

#### CONCULTION

It can not be said that shell companies are illegal. Shell companies remain untraceable and happen to be the vehicle for money launderers, bribe givers and takers, tax evaders and financiers of terrorism in Jammu and Kashmir. The government decided to bar as many as 300,000 directors of companies that have defaulted on statutory compliances from serving on the boards of other firms to improve corporate governance and check financial irregularities through the use of shell companies. Many big companies create shell company to avoid tax. Shell company is a corporate entity without significant assets or without active business operation.

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