MONEY LAUNDERING AND ITS PREVENTION

PART 1

What is Money Laundering?

Money laundering refers to a financial transaction scheme that aims to conceal the identity, source, and destination of illicitly-obtained money (black money). The money laundering process can be broken down into three stages.

(i) First, the illegal activity that garners the money places it in the launderer's hands.

(ii) Second, the launderer passes the money through a complex scheme of transactions to obscure who initially received the money from the criminal enterprise.

(iii) Third, the scheme returns the money to the launderer in an obscure and indirect way.

Most disturbing of all, money-laundering fuels corruption and organized crime. Corrupt public officials need to be able to launder bribes, kick-backs, public funds and, on occasion, even development loans from international financial institutions. Terrorist groups use money-laundering channels to get cash to buy arms. The social consequences of allowing these groups to launder money can be disastrous. Taking the proceeds of crimes from corrupt public officials, traffickers and organized crime groups is one of the best ways to stop criminals in their tracks.

How is Money Laundered

In the initial - or placement - stage of money laundering, the launderer introduces his illegal profits into the financial system. This might be done by breaking up large amounts of cash into less conspicuous smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (cheques, money orders, etc.) that are then collected and deposited into accounts at another location.

After the funds have entered the financial system, layering – stage takes place. In this phase, the launderer engages in a series of conversions or movements of the funds to distance them from their source. The funds might be channeled through the purchase and sales of investment instruments, or the launderer might simply wire the funds through a series of accounts at various banks across the globe. This use of widely scattered accounts for laundering is especially prevalent in those jurisdictions that do not co-operate in anti-money laundering investigations. In some instances, the launderer might disguise the transfers as payments for goods or services, thus giving them a legitimate appearance.

Having successfully processed his criminal profits through the first two phases the launderer then moves them to the third stage – integration – in which the funds re-enter the legitimate economy. The launderer might choose to invest the funds into real estate, luxury assets, or business ventures.

Impact of Money Laundering on Economic and Social Development

As with the damaged integrity of an individual financial institution, there is a damping effect on foreign direct investment when a country's commercial and financial sectors are perceived to be subject to the control and influence of organised crime. Fighting money laundering and terrorist financing is therefore a part of creating a business friendly environment which is a precondition for lasting economic development.

The possible social and political costs of money laundering, if left unchecked or dealt with ineffectively, are serious. Organised crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and indeed governments.

The economic and political influence of criminal organisations can weaken the social fabric, collective ethical standards, and ultimately the democratic institutions of society. In countries transitioning to democratic systems, this criminal influence can undermine the transition. Most fundamentally, money laundering is inextricably linked to the underlying

criminal activity that generated it. Laundering enables criminal activity to continue.

Factors Leading to Generation of Black Money

- The 'criminal' component of black money may include proceeds from a range of activitiesincluding racketeering, trafficking in counterfeit and contraband goods, smuggling, production and trade ofnarcotics, forgery, illegal mining, illegal felling of forests, illicit liquor trade, robbery, kidnapping, humantrafficking, sexual exploitation and prostitution, cheating and financial fraud, embezzlement, drug money,bank frauds, and illegal trade in arms.
- Significant amount of black money, however, is generated through legally permissible economic activities, which are not accounted for and disclosed or reported to the public authorities as per the law or regulations, thereby converting such income into black money.

Generating Black Money by Manipulation of Accounts

There can be two different modus operandi involved in the generation of black money. The first is the crude approach of not declaring or reporting the whole of the income or the activities leading to it. This is the likely approach in all cases of criminal, illegal, and impermissible activities.

Generation of Black money in Some Vulnerable Sections of the Economy

- Land and Real Estate Transactions
- Bullion and Jewellery Transactions

Transfer Pricing

Since allocation of costs and overheads and fixing of price of product/services are highly subjective, MNEs enjoy considerable discretion in allocating costs and prices to particular products/services and geographical jurisdictions. Such discretion enables them to transfer profit/income to no tax or low tax jurisdictions. Differing tax rates in different tax jurisdictions can create perverse incentives for corporations to shift taxable income from jurisdictions with relatively high tax rates to jurisdictions with relatively low tax rates as a means of minimizing their tax liability.

- Financial Market Transactions
- Public Procurement
- Non-profit Sector (NGO's and Charitable Institutions)
- Informal Sector and Cash Economy
- External trade and Transfer Pricing

Trade-based Money Laundering (TBML): The FATF defines TBML as the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt at legitimizing their illicit origins. Factors that facilitate such manipulation include the enormous volume of international trade flow, the complexity associated with financing arrangements and currency exchanges as well as limited recourse to verification procedures between countries.

Some of the old tax havens have adopted the more benign designation 'offshore financial centre' (OFC) and tend to describe themselves as financial centres specializing in non-residential financial transactions. However, with their array of secrecy provisions that lack regulation, the zero or near zero taxation imposed by them, and lack of adequate capital controls, they are logical extensions of the traditional tax havens. 'offshore financial centre' (OFC) and tend to describe themselves as financial centres specializing in non-residential financial transactions. However, with their array of secrecy provisions that lack regulation, the zero or near zero taxation imposed by them, and lack of adequate capital controls, they are logical extensions of the traditional tax havens.

Misuse of Corporate Structure

Corporate structuring is a legitimate means of bringing together factors of production in a way that will facilitate business and enterprise and help the economy. However, an artificial personality can also be created of a corporate entity to conceal the real beneficiaries. Opaque structuring through creation of multiple entities that own each other and the secrecy granted by certain jurisdictions facilitate such misuse.

The FATF has also taken a strong stand on this issue and is in the process of revamping its recommendations to tighten the rules. It is expected that there will be a shift towards identifying real rather than merely legal ownership and global efforts will plug the loopholes existing in the form of such unethical practices prevalent today.

For ex: The Vodafone tax case provides an instance of the misuse of corporate structure for avoiding the payment of taxes. In this case, the Hutchison Group had made investments in India from 1992 to 2006 through a number of subsidiaries having 'separate corporate personality' but which were essentially postbox companies based in the Cayman Islands, British Virgin Islands, and Mauritius. The Hutchison Group sold its entire business operation in India in February 2007 to the Vodafone Group for a total consideration of US$ 11.2 billion and the same was effected through transfer of a solitary share of a Cayman Islands company. When the tax authorities requested the accounts of the said company, the answer given was that as per Cayman Islands law, the company was not required to prepare its accounts. This made Indian Tax authorities to impose penalty on the aforesaid transaction.

A Participatory Note (PN) is a derivative instrument issued in foreign jurisdictions, by a ForeignInstitutional Investor (FII) / its sub-accounts or one of its associates, against underlying Indian securities.

PNs are popular among foreign investors since they allow these investors to earn returns on investmentin the Indian market without undergoing the significant cost and time implications of directly investingin India. These instruments are traded overseas outside the direct purview of SEBI surveillance therebyraising many apprehensions about the beneficial ownership and the nature of funds invested in theseinstruments. Concerns have been raised that some of the money coming into the market via PNscould be the unaccounted wealth camouflaged under the guise of FII investment. SEBI has beentaking measures to ensure that PNs are not used as conduits for black money or terrorist funding.

Institutions to Deal with Black Money

The responsibility of dealing with the challenge of unaccounted wealth and its consequences is jointly and collectively shared by a number of institutions belonging to the central and state governments. These include various tax departments which are assigned the task of enforcement of tax laws. Among them the important ones are the CBDT and the Central Board of Excise and Customs (CBEC).

However, there are various other regulatory authorities undertaking supervision and policing. They include the Enforcement Directorate (ED), Financial Intelligence Unit (FIU), and Economic Offences Wing of the State Police, Central Bureau of Investigation (CBI), Serious Frauds Investigation Office (SFIO), and Narcotics Control Bureau (NCB). In addition, there are coordinating agencies such as the Central Economic Intelligence Bureau (CEIB), National Investigation Agency (NIA), and the High Level Committee (HLC), which also play an important role in fighting the menace of black money.

Central Board of Direct Taxes

The CBDT is a statutory authority functioning under the Central Board of Revenue Act 1963.

It core tasks remains

- Policy making for Taxation
- Assessment
- Investigation
- Collection of Information
- Collection of Information Involving Cross-border Transactions

Enforcement Directorate

The ED was established in 1956 to administer the provisions of the Foreign Exchange Regulation Act 1973 (FERA). However, FERA was repealed on 31 May 2000 and replaced with the Foreign Exchange Management Act 1999 (FEMA) which came into force with effect from 1 June 2000. The ED has currently been entrusted with the investigation and prosecution of money-laundering offences and attachment/confiscation of the proceeds of crime under the Prevention of Money Laundering Act 2002 (PMLA).

The officers of the ED undertake multifaceted functions of collection, collation and development of intelligence, investigation into suspected cases of money laundering, attachment/confiscationof assets acquired through the commission of scheduled offences, and the criminal prosecution of the

offenders in the court of law. The ED also enforces the provisions of FEMA, aimed at promoting the development and maintenance of India's foreign exchange market and providing, inter alia, for action against persons/entities involved in international hawala transactions.

Financial Intelligence Unit

The FIU-IND was established in November 2004 for coordinating and strengthening efforts for national

and international intelligence by investigation and enforcement agencies in combating money laundering and terrorist financing. FIU-IND is the national agency responsible for receiving, processing, analysing, and disseminating information relating to suspect financial transactions. It is an independent body reporting to the Economic Intelligence Council headed by the Finance Minister. For administrative purposes, the FIU-IND is under the control of the Department of Revenue, Ministry of Finance.

Other agencies Involved:

- Central Board of Excise and Customs and DRI
- Central Economic Intelligence Bureau
- The NCB
- The Central Bureau of Narcotics (CBN)
- The SFIO
- The Registrar of Companies (ROC)
- The Registrar of Societies (ROS)
- The Bureau of Immigration (BOI)
- The Economic Intelligence Council (EIC)
- The Inter-Ministerial Coordination Committee on Combating Financing of Terrorism and Prevention of Money Laundering (IMCC)
- The National Crime Records Bureau
- The National Investigation Agency

Tackling the Menace of Black Money:

The high marginal tax rates of over 90 per cent in the early 1970s, often considered a major reason for tax evasion and generation of black money, were brought down subsequently and have been at around 30 per cent since 1997. In the meantime, liberalization of tariff and non-tariff barriers also removed some of the underlying reasons for black money. However, with liberalization of restrictions on cross-border flow of goods and services and relaxation of foreign exchange control, new opportunities opened up for tax evasion through tax havens, misuse of transfer pricing, and other sophisticated methods.

Globalisationreduced the cost of these sophisticated methods thereby facilitating generation of black money and itstransfer across the border. These changes required new strategies to curb black money.

The role of tax havens has gradually come under scrutiny globally. With near-zero tax regimes, banking secrecy, and weak financial regulations, these tax havens facilitate hiding of money accumulated through tax evasion and other illegal means in addition to creating risks of terrorist financing and money laundering.

At the G-7 summit in Lyons in 1996, a call was given to the OECD to prepare a report to address these issues with a view to establishing a multilateral approach under which countries could operate individually and collectively to limit the extent of these practices. The OECD came up with a report in 1998 and called for action against tax havens. The report envisaged blacklisting of and internationally coordinated sanctions against havens that persisted in luring other states' tax bases.

The G20 summit in London in April 2009 proved to be an important milestone when just before the summit, countries like Switzerland, Liechtenstein, Luxembourg, and Monaco announced their preparedness to accept OECD standards of transparency and exchange of information. As an equal member of the G20, India played a vital role in sending out a strong message to various countries that if they did not comply with international standards of transparency, they should be ready to face sanctions from the 20 largest economies. The G20 countries, including India, declared, 'We agree to take action against non-cooperative jurisdictions, including tax havens. We stand ready to deploy sanctions to protect our public finances and financial systems. The era of banking secrecy is over.'

In the wake of such dramatic transformation of the factors that lead to the generation of black money and the globalized development that facilitates them, the Government of India has resorted to a five-pronged strategy, which consists of the following:

(a) Joining the global crusade against black money;
(b) Creating appropriate legislative framework;
(c) Setting up institutions for dealing with illicit money;
(d) Developing systems for implementation; and
(e) Imparting skills to personnel for effective action.

India's actions through the G20

At the London summit in April 2009, India played a

major role in developing international consensus for taking action against tax havens. In its September 2009 summit at Pittsburg, the G20 gave a call for developing a toolbox of counter measures against non-cooperative jurisdictions. The G20 leaders envisaged a 'toolbox' with possible sanctions, suggesting the following measures:

- Increased disclosure requirements on the part of taxpayers and financial institutions to report transactions involving non-cooperative jurisdictions;
- Withholding taxes in respect of a wide variety of payments;denying deductions in respect of expense payments to payees resident in a non-cooperative jurisdiction;
- Reviewing tax treaty policy;
- Asking international institutions and regional development banks to review their investment policies; and
- Giving extra weight to the principles of tax transparency and information exchange when designing bilateral aid programmes.

It was on India's initiative in November 2010 at the Seoul Summit that the G20 gave a call for concluding the TIEA (Tax Information Exchange Agreement). Prior to this, some countries were not willing to enter into TIEAs and were insisting on entering into DTAAs. Both the DTAA as well as TIEA are effective tax information exchange mechanisms.

Since negotiation of a DTAA (Double Tax Avoidance Agreement) takes time, which can delay development of the mechanism for effective exchange, India has taken the plea that a country cannot refuse signing a TIEA if it has been requested by other countries. It was again at India's initiative that this position was accepted and now global consensus has emerged that a country cannot insist on a DTAA and must conclude a TIEA if requested by other countries.

India at Global Forum

India is vice chair of the Peer Review Group of the Global Forum which carries out monitoring and peer review of the member and relevant jurisdictions. Peer Review is carried out in two phases. Phase 1 deals with a jurisdiction's legal framework, while Phase 2 deals with the practical application of that framework. The peer review ensures that every jurisdiction in the world adheres to a minimum standard on transparency and exchange of information for tax purposes. This minimum standard embraces three basiccomponents:availability of information, appropriate access to the information and the existence of exchangeof information mechanisms.

United Nations Convention against Transnational Organized Crime

The United Nations Convention against Transnational Organized Crime (UNTOC) is a 2000 United Nations-sponsored multilateral treaty against transnational organized crime. The Convention was adopted by a resolution of the United Nations General Assembly on 15 November 2000, with the aim of promoting cross-border cooperation in tackling organized crime. The UNTOC is also known as the Palermo Convention, obtaining three protocols, known as Palermo Protocols

- Protocol to Prevent, Suppress and Punish Trafficking in Persons, especially Women and Children
- Protocol against the Smuggling of Migrants by Land, Sea, and Air.
- Protocol against the Illicit Manufacturing and Trafficking in Firearms

The Convention came into force on 29 September 2003. As of January 2015, it has 185 parties which includes 180 United Nations member states, the Cook Islands, the Holy See, Niue, the State of Palestine, and the European Union.

United Nations Convention against Corruption

The United Nations Convention against Corruption (UNCAC) is a multilateral convention negotiated by members of the United Nations. It is the first global legally binding international anti-corruption instrument. The UNCAC requires that States Parties implement several anti-corruption measures which may affect their laws, institutions and practices. These measures aim at preventing corruption, including domestic and foreign bribery, embezzlement, trading in influence and money laundering. Furthermore, the UNCAC is intended to strengthen international law enforcement and judicial cooperation, providing effective legal mechanisms for asset recovery, technical assistance and information exchange, and mechanisms for implementation of the Convention, including the Conference of the States Parties to the United Nations Convention against Corruption (CoSP).

UNCAC was adopted by the United Nations General Assembly in 2003. It was signed by 140 countries. As of December 2015, there are 178 parties, which includes 175 UN member states, the Cook Islands, the State of Palestine, and the European Union.

Financial Action Task Force (on Money Laundering)

The Financial Action Task Force (on Money Laundering) (FATF) is an intergovernmental organization founded in 1989 on the initiative of the G7 to develop policies to combat money laundering. In 2001 the purpose expanded to act on terrorism financing. It monitors countries' progress in implementing the FATF Recommendations by 'peer reviews' ('mutual evaluations') of member countries. The FATF Secretariat is housed at the headquarters of the OECD in Paris. As of 2015 FATF consists of 34 member jurisdictions and two regional organisations, the EU and the Gulf Co-operation Council. The FATF also works in close co-operation with a number of international and regional bodies involved in combating money laundering and terrorism financing.

Egmont Group

Egmont group is a group of Financial Intelligence Unit for international cooperation and free exchange of information.FIU-IND was admitted as a member of the group in May 2007 and since then India has been playing animportant role in facilitating cooperation amongst FIUs through this Group. At the Group's plenary meetingin June 2010, India was elected co-chair of the Asia group which has given Indian representatives anopportunity to participate in the meetings and deliberations of the Egmont Committee which is the policymaking body of the Group.

The foregoing discussion demonstrates that India has been in the forefront of the global crusadeagainst black money by effectively raising the issues of transparency in global forums, has joined variousinternational conventions, and is promoting full flow of information amongst jurisdictions.

Legislations to curb the Menace:

Prevention of Money Laundering Act

The Prevention of Money Laundering Act 2002 was enacted to prevent money laundering and provide for confiscation of property derived from, or involved in, money laundering and for matters connected therewith or incidental thereto. The Act also addressed international obligations under the Political Declaration and Global Programme of Action adopted by the General Assembly of the United Nations to prevent money laundering.

To strengthen the provisions of the PMLA, amendments were carried out in 2009. These amendments have introduced new definitions to clarify and strengthen the Act and strengthened provisions related to attachment of property involved in money laundering and its seizure and confiscation. More offences have been added in Parts A and B of the Schedule to the Act, including those pertaining to insider trading and market manipulation as well as smuggling of antiques, terrorism funding, human trafficking other than prostitution, and a wider range of environmental crimes. A new category of offences with cross-border implications has been introduced as Part C.

Prevention of Money Laundering (Amendment) Act, 2011

The Bills proposes to introduce the concept of 'corresponding law' to link the provisions of Indian law with the laws of foreign countries. It also adds the concept of 'reporting entity' which would include a banking company, financial institution, intermediary or a person carrying on a designated business or profession. The Bill expands the definition of offence under money laundering to include activities like concealment, acquisition, possession and use of proceeds of crime. The Prevention of Money Laundering Act, 2002 levies a fine up to Rs five lakh. The Bill proposes to remove this upper limit.

The Bill seeks to provide for provisional attachment and confiscation of property of any person (for a period not exceeding 180 days). This power may be exercised by the authority if it has reason to believe that the offence of money laundering has taken place. The Bill proposes to confer powers upon the Director to call for records of transactions or any additional information that may be required for the purposes on investigation. The Director may also make inquiries for non-compliance of the obligations of the reporting entities. The Bill proposes to provide for appeal against the orders of the Appellate Tribunal directly to the Supreme Court within 60 days from the communication of the decision or order of the Appellate Tribunal.

Prevention of Benami Transactions

One of the important initiatives taken by the Government was the introduction of the Benami Transaction (Prohibition) Bill 2011 which is still in pipeline. Such law will add teeth to the existing legislation on Benami Transactions.

Public Procurement Bill

The Bill seeks to regulate procurement by ministries/ departments of the central Government and its attached/subordinate offices, central public sector enterprises (CPSEs), autonomous and statutory bodies controlled by the central government and other procuring entities with the objectives of ensuring transparency, accountability and probity in the procurement process, fair and equitable treatment of bidders, promoting competition, enhancing efficiency and economy, safeguarding integrity in the procurement process, and enhancing public confidence in public procurement.

The Undisclosed Foreign Income and Assets (Imposition of Tax) Bill, 2015

The Bill applies to Indian residents and seeks to replace the Income Tax (IT) Act, 1961 for the taxation of foreign income. It penalizes the concealment of foreign income, and provides for criminal liability for attempting to evade tax in relation to foreign income.

Tax rate: A flat rate of 30 per cent tax would apply to undisclosed foreign income or assets of the previous assessment year. No exemption, deduction or set off of any carried forward losses (as provided under the IT Act) would apply. This would apply from April 1, 2016 onwards.

Scope of income to be taxed: The total undisclosed foreign income and asset of an individual wouldinclude: (i) income, from a source located outside India,which has not been disclosed in the tax returns filed; (ii)income, from a source outside India, for which no taxreturns have been filed; and (iii) value of an undisclosedasset, located outside India.

One - time compliance opportunity: A one-timecompliance opportunity to persons who have anyundisclosed foreign assets (for all previous assessmentyears) will be provided for a limited period. Suchpersons would be permitted to file a declaration beforea tax authority, and pay a penalty at the rate of 100%.

Tax Authorities: The relevant tax authorities and theirjurisdiction would be as specified under the IT Act.They would have powers of inspection of documents,and evidence. The proceedings are to be judicial.

Penalty for offences

The penaltyfor nondisclosure of foreign income or assetswould be equal to three times the amount of taxpayable, in addition to tax payable at 30%.The penalty for notfurnishing income tax returns in relation toforeign income or assets is a fine of Rs 10 lakh.This would not apply to an asset, with a value offive lakh rupees or less.If a person who has filed tax returns doesnot disclose his foreign income, or submitsinaccurate details of the same, he has to pay afine of Rs 10 lakh. This would not apply to anasset, with a value of five lakh rupees or less.Prosecution for certain offences:

(i) Wilful attempt to evade tax: The punishment would be rigorous imprisonment from three to 10 years, and a fine.

(ii) Wilful attempt to evade payment of tax: Thepunishment would be rigorous imprisonment from three months to three years, and a fine.

(iii) Failure to furnish returns, or non disclosure of foreign assets in returns: The punishment is rigorous imprisonment of six months to seven years, and fine.

(iv) Punishment for abetment: The punishment isrigorous imprisonment of six months to seven years, and fine.

(v) Liability of company: For any offence under thisAct, every person responsible to the company is to be liable for punishment. His liability is absolved if he proves that the offence was committed without his knowledge

Other Important legislations

- Prevention of Bribery of Foreign Public Officials Bill
- Lokpal and Lokayukta Act

Setting up Institutions for Dealing with Illicit Money

The third limb of the five-pronged strategy to deal with the menace of black money, particularly to check cross-border flows, is setting up institutions to deal

with the problem. Some of the initiatives taken by the Government of India in this regard are described in the following paragraphs.

Directorate of Criminal Investigation

The DCI, in discharge of its responsibilities under the direct tax laws, is required to perform the following functions:

- Seek and collect information about persons and transactions suspected to be involved incriminal activities having cross-border, inter-state, or international ramifications that pose athreat to national security and are punishable under the direct tax laws;
- Investigate the sources and uses of funds involved in such criminal activities;
- Cause issuance of show cause notices for offences committed under any direct tax law;
- File prosecution complaints in the competent court under any direct tax law relating to a criminalactivity;
- Hire the services of special prosecutors and other experts for pursuing a prosecution complaintfiled in any court of competent jurisdiction;
- Execute appropriate witness protection programmes for effective prosecution of criminaloffences under the direct tax laws, i.e. to protect and rehabilitate witnesses who support thestate in prosecution of such offences so as to insulate them from any harm to their person;
- Coordinate with and extend necessary expert, technical, and logistical support to any otherintelligence or law enforcement agency in India investigating crimes having cross-border,
- inter-state or international ramifications that pose a threat to national security;
- Enter into agreements for sharing of information and other cooperation with any central orstate agency in India;
- Enter into agreements for sharing of information and other cooperation with such agencies offoreign states as may be permissible under any international agreement or treaty; and
- Any other matter relating to the above.

Cell for Exchange of Information (EOI)

The Government of India has set up an Exchange of Information (EOI) Cell in the FT&TR Division of the CBDT. The EOI works on the basis of mutual cooperation. The competent authorities of different countries provide different forms of administrative assistance to each other based on the provisions of DTAAs/TIEAs or the Multilateral Convention for Mutual Administrative Assistance. Administrative assistance under these instruments of EOI, depending on the terms of the agreement, may take the form of (a) specific exchange of information, (b) spontaneous exchange of information, (c) automatic exchange of information, (d) tax examination abroad, (e) simultaneous exchange of information, (f) service of documents, and (g) assistance in collection of tax.

Income Tax Overseas Units

With increased scope for international cooperation in areas of exchange of information, transfer pricing, and taxation of cross-border transactions, Government of India decided to create a network of Income Tax Overseas Units (ITOUs). In addition to the existing two ITOUs at Singapore and Mauritius, eight more have been opened. The objectives of these ITOUs are:

- Monitor DTAA-related issues;
- Assist the authorities in handling issues arising out of international taxation and transfer pricing;
- Assist the authorities in frequent revision of existing DTAAs;
- Assist the authorities in negotiation of TIEAs;
- Expedite the exchange of information by the competent authorities (as per DTAAs and TIEAs) of these countries as required by the competent authority in India;
- Assist the authorities in collection of taxes;
- Assist the authorities in work relating to Mutual Agreement Procedure under DTAAs;
- Maintain liaison with various departments of the respective countries especially Income TaxDepartment, Registrar of Companies, Department of Banking Services, and Administrators of Financial Services;

- Maintain liaison with investors investing in India from these countries;
- Impart information about domestic laws of India to foreign investors;
- Maintain liaison with Indian investors in these countries to assess any tax-related problems arising for these investors;
- Assist the Mission in any other commercial/ economic work assigned to the officer by the Head of the Mission; and
- Any other work assigned to the officer by the CBDT, Department of Revenue.

Strengthening the FT&TR Division in the CBDT

The FT&TR Division of the CBDT has been playing a pivotal role in negotiating DTAAs and TIEAs and bringing them up to international standards, exchanging of information with foreign tax administratorsunder these DTAAs/TIEAs through the competent authority, settling of disputes under DTAAs/TIEAs, participation in international forums for strongly putting across the views of the Government of India, administration of Advanced Pricing Agreements, in addition to advising the government on all policies relating to international taxation and transfer pricing.

Integrated Taxpayer Data Management System (ITDMS) and 360-degree Profiling:

The information collected by the Income Tax Department from various sources such as AIR, taxdeduction at source (TDS), the Central Information Branch, OLTAS, etc. is collated in a computerizedenvironment to create a 360-degree profile of the high net-worth assessees, termed ITDMS. The ITDMS isutilized for investigation of tax evasion complaints and for developing cases for search and seizure actions.

Goods and Services Tax Network (GSTN)

The Cabinet has approved a proposal to set up a special purpose vehicle -GSTN (GSTN SPV)for providing shared IT infrastructure and services to central and state governments, taxpayers, andother stakeholders for implementation of the goods and services tax (GST), both before and after therollout of GST.

Strategies for Curbing Generation of Black Money from Legal and Legitimate Activities

A. Reducing disincentives against voluntary compliance

- Rationalization of Tax Rates
- Reducing Transaction Costs of Compliance and Administration
- Further Economic Liberalization

B. Reforms in vulnerable sectors of the economy

- Financial Sector
- Real Estate
- Bullion and Jewellery Sector
- Cash Economy
- Mining and Allocation of Property Rights over Natural Resources
- Equity Trading
- Misuse of Corporate Structure for Generation of Black Money
- Non Profit Organisations and the Cooperative Sector

C. Creating effective credible deterrence

- Integration of Databases Leading to Actionable Intelligence by Monitoring Agencies
- Strategies to Strengthen Direct Tax Administration
- Strengthening of the Prosecution Mechanism
- Enhanced Exchange of Information
- Income Tax Overseas Units
- Efforts to be undertaken at International Forums
- International Taxation and Transfer Pricing
- Effective Curbing of Structuring through Tax Havens
- Strengthening of Indirect Tax Administration
- Strengthening of FIU-IND
- Strengthening of CEIB
- Strengthening of Other Institutions
- Other Steps to Curb Generation of Black Money within India

D. Supportive measures

- Creating Public Awareness and Public Support

- Enhancing the Accountability of Auditors
- Protection to Whistleblowers and Witnesses
- Need to Join International Efforts and Use International Platforms
- Need to Fine-tune Relevant Laws and Regulations
- Strengthening of Social Values

Recent cases

Aircel-Maxis Case

Maxis is a Malaysian company owned by business tycoon T Ananda Krishnan, popularly known as TAK. He is a Malaysian citizen of Sri Lankan Tamil origin. Aircel was first promoted by NRI tycoon C Sivasankaran (Siva), a native of Tamil Nadu. In 2006, Maxis took over Aircel by acquiring 74 per cent shares. The rest (26 percent) is now owned by Indian companies related to the Apollo Hospital group. These shares are managed by Sunita Reddy, one of Apollo group founder Dr C Pratap Reddy's daughters. This deal became controversial after the 2G spectrum scam when the Supreme Court asked the Central Bureau of Investigation to probe then telecom minister A Raja's predecessors.

Bank of Baroda Fraud case

It was alleged that a whopping Rs 6,172 crore black money was remitted from Bank of Baroda to Hong Kong camouflaged as payments for non-existent imports like cashew, pulses and rice. The amount was allegedly deposited in 59 accounts in cash as advance for imports that never existed and that money was sent to Hong Kong and Dubai via banks, actual exports were sent to Afghanistan. During the year outward foreign remittances aggregating USD 546.10 million (around Rs 3,500 crore) were made through current accounts to various overseas parties numbering some 400, mainly based in Hong Kong and one in the UAE. In response, Finance Minister Arun Jaitley said the magnitude of the alleged black money transfer through state-owned Bank of Baroda (BoB) will only be known after completion of the multi-disciplinary probe. In October six persons were arrested on charges of criminal conspiracy, cheating and provisions of the Prevention of Corruption Act.