

Asia & Pacific

India targets tax evaders who hide ‘black money’ at home and abroad

By Rama Lakshmi September 6 at 10:11 PM

NEW DELHI — Among the pledges that propelled Indian Prime Minister Narendra Modi to power a year ago was one to bring home millions of dollars of illicit money the super-rich had stashed abroad.

Trying to make good on his promise, his government has introduced a string of tough new measures in recent months designed to crack down on “black money,” fueling panic among India’s elite and growing numbers of millionaires.

The anxiety has deepened in recent weeks as a government-imposed Sept. 30 tax-payment deadline for those who have stashed their cash in foreign accounts approaches.

The Associated Chambers of Commerce and Industry of India recently issued a [statement](#) denouncing the new law for creating “fear and panic” among industry leaders and trading professionals.

“People are uneasy and worried. The penalty and term of imprisonment are disproportionately high,” said Nishith Desai, a corporate lawyer in Mumbai.

Industry experts say that the rich are frantically searching for new tax havens and other ways to [skirt](#) the law, which includes penalties of up to 10 years in jail.

A subtle new climate of fear has changed everyday life for India’s elite.

“The super-rich are becoming much more inhibited in their behavior now. They are no longer posting pictures of their brand-new fancy watch or [luxury](#) car or expensive holiday on Facebook as readily as they did before,” said Dilip Cherian, who heads the image consultancy Perfect Relations. “They are either buying with credit cards or buying luxury products in foreign countries.”

The shadow economy

No one [knows](#) for sure how much black money is hidden in India and overseas. Estimates range from \$400 billion to [more than](#) \$1 trillion.

India's history as a socialist-leaning country unfriendly to business — with endemic [corruption](#) — meant that the country's rich routinely hid their wealth by hoarding cash, jewelry and expensive artwork or parking it in tax havens abroad. A World Bank estimate in 2010 said India's "shadow economy" accounts for more than 20 percent of its economic output. Only 3 percent of the country [pays](#) income taxes.

Two years ago, the investigative portal Cobrapost conducted a sting on 28 top state-owned and private banks across India in which executives were filmed on hidden camera offering to channel vast sums of customers' unaccounted cash into the formal banking system.

Real estate is another common hiding place for untaxed money.

"Land is where Indian politicians and businessmen park the maximum amount of black money," said Pankaj Kapoor, founder of the realty research firm Liasis Foras in Mumbai. "About 30 percent of all land transactions across India is done in cash."

Black money is also deeply embedded in India's [political](#) system. According to the election watchdog Association for Democratic Reforms, 80 percent of the income of five national political parties comes from unknown sources.

"In the disclosures of our elected politicians, you can see the assets have grown but their income and income tax payment have not grown proportionately. How do you explain that?" asked Ramesh Padmanabhan, a senior chartered accountant in Bangalore.

Last month, police [raided](#) a government official's home in West Bengal and found \$3 million in cash hidden in a variety of places — mattresses, sofas, a washing machine, a refrigerator, a television set, above false ceilings and under bathroom tiles. It took officers 21 hours to count the money.

The government hopes to choke India's black-money culture with measures that include mandatory tax number declarations for people shopping with large sums, linking [biometric](#) identities to every bank account, opening new payment [gateways](#) and promoting credit card use.

"The process of [formalizing](#) the informal economy is underway in India," said Rajeev Chandrasekhar, an independent member of Parliament. "A lot of people who are used to an old model of doing business in India are uncomfortable today about the new scrutiny."

Overseas evasions

Shortly after his election, Modi vowed he would bring black money stashed overseas back into the country and use it for development. During his campaign, he made the wild claim that so much money was involved he could deposit

nearly \$23,000 into accounts of every poor person.

“The big fish must not get away,” Finance Minister Arun Jaitley said when the black-money law passed in May.

But interviews with chartered accountants, tax officials and businessmen reveal that in recent months, many of India’s wealthy have found new ways around the scrutiny.

A favorite tactic, accountants said, is sending family members abroad for 182 days, after which they become “non-residents” with foreign accounts and businesses where the family members can stash money.

An official in the tax department said that in the past few months, international companies have begun using a new mix of insurance products to mask and move this illegal money to locations such as Dubai and Singapore, from where it can be brought into India legally.

The official, who spoke on the condition of anonymity because he was not authorized to speak to the media, said his department has noticed a 250 percent jump in the number of shell companies being registered by what he called “Indian frontmen” in the tax-friendly city of Ras al-Khaimah in the United Arab Emirates. New safe havens such as Vanuatu near Australia and Kutunu near Nigeria are also becoming popular, he said.

In October, the government gave the names of some of the people who hold bank accounts abroad in tax havens to the Supreme Court. They included a miner, a gold and silver trader, and the owner of a large herbal products company.

The drive has prompted fears in the business community that the black-money law opens businessmen up to harassment.

“I support this government for bringing the black-money law. I have no sympathy for people who have stashed money abroad illegally,” said Rahul Bajaj, one of India’s top industrialists and the chairman of Bajaj Auto. But he said safeguards are needed so that low-level tax officials do not harass businessmen and identities are protected. “There should also be an assurance that their declarations will not be termed illegal if there are small errors and for some technical reasons and they are not prosecuted for that.”

In July, a special investigation team recommended new measures to curb black money, including laws to deter betting on cricket and closely monitoring donations to temples, [gurus](#) and their ashrams, many of which have storerooms stacked with gold.

There are doubts the program will be effective. In May, Ram Jethmalani, a lawyer and black-money crusader, told the Supreme Court that Modi's promise to bring back black money was "worse than an illusion" and a "fraud on the nation."

"They must bring in a significant amount of black money into the system like they promised. [Otherwise] people will soon begin to ask uncomfortable questions," said T.S. Ahluwalia, director of Dharamvir Exports, an exporter of farm products.

Already there is speculation that the Sept. 30 deadline may be extended. So far, only one wealthy person has reported black-money holdings and paid the tax and penalty.