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**STANDING COMMITTEE ON FINANCE  
(2018-19)**

**SIXTEENTH LOK SABHA**

**MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE)**

**STATUS OF UNACCOUNTED INCOME/WEALTH BOTH INSIDE  
AND OUTSIDE THE COUNTRY - A CRITICAL ANALYSIS**

**(A PRELIMINARY REPORT)**

**SEVENTY-THIRD REPORT**



**LOK SABHA SECRETARIAT  
NEW DELHI**

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(2018-2019)**

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(DEPARTMENT OF REVENUE)**

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AND OUTSIDE THE COUNTRY - A CRITICAL ANALYSIS**

**(A PRELIMINARY REPORT)**

*Presented to Speaker on 28 March 2019*

*Presented to Lok Sabha on \_\_\_\_\_*

*Laid in Rajya Sabha on \_\_\_\_\_*

**LOK SABHA SECRETARIAT  
NEW DELHI**

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Minutes of the Sittings of the Committee held on 21.02.2019 and 07.03.2019.

**COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2018-19**

**Dr. M. Veerappa Moily - Chairperson**

**MEMBERS**

**LOK SABHA**

2. Shri T.G. Venkatesh Babu
3. Kunwar Pushpendra Singh Chandel
4. Shri Bandaru Dattatreya
5. Shri Nishikant Dubey
6. Shri Harish Dwivedi
7. Shri Gopalakrishnan Chinnaraj
8. Shri Rattan Lal Kataria
9. Shri Chandrakant Bhaurao Khaire
10. Shri Bhartruhari Mahtab
11. Shri Prem Das Rai
12. Shri Rayapati Sambasiva Rao
13. Prof. Saugata Roy
14. Shri Rajiv Pratap Rudy
15. Shri Jyotiraditya Madhavrao Scindia
16. Shri Gopal Chinayya Shetty
17. Shri Prathap Simha
18. Dr. (Prof.) Kiritbhai Premjibhai Solanki
19. Dr. Kirit Somaiya
20. Shri Dinesh Trivedi
21. Shri Shivkumar Chanabasappa Udasi

**RAJYA SABHA**

22. Shri Rajeev Chandrasekhar
23. Shri Anil Desai
24. Dr. Narendra Jadhav
25. Shri A. Navaneethakrishnan
26. Shri Mahesh Poddar
27. Dr. Mahendra Prasad
28. Shri C.M. Ramesh
29. Shri T.K. Rangarajan
30. Shri Digvijaya Singh
31. Dr. Manmohan Singh

**SECRETARIAT**

- |    |                              |   |                             |
|----|------------------------------|---|-----------------------------|
| 1. | Shri N.C. Gupta              | - | Joint Secretary             |
| 2. | Shri Ramkumar Suryanarayanan | - | Director                    |
| 3. | Shri Kulmohan Singh Arora    | - | Addl. Director              |
| 4. | Shri Rahul L. Nair           | - | Assistant Executive Officer |

## INTRODUCTION

I, the Chairperson of the Parliamentary Standing Committee on Finance, having been authorized by the Committee, present this Seventy-Third Report on the subject 'Status of unaccounted income/wealth both inside and outside the country - a critical analysis' (A Preliminary Report).

2. This Preliminary Report is based on the evidence of the representatives of Ministry of Finance (Department of Revenue) and Central Board of Direct Taxes (CBDT) taken by the Committee on 21 February, 2019.

3. The Committee at their sitting held on 7 March, 2019 considered and adopted the draft preliminary report on the subject pending examination of other witnesses and authorised the Chairperson to finalise the same and present it to the Hon'ble Speaker.

4. The Committee wish to express their thanks to the officials of the Ministry of Finance (Department of Revenue) and Central Board of Direct Taxes (CBDT) for appearing and deposing before the Committee.

5. For facility of reference, the observations/recommendations of the Committee have been printed in bold in the body of the Report.

**NEW DELHI**  
**11 March, 2019**  
**20 Phalguna, 1941 (Saka)**

**DR. M. VEERAPPA MOILY**  
***Chairperson***  
**Standing Committee on Finance**

## **PART - I**

### **Chapter – I**

#### **Unaccounted Income and its Estimation**

##### **A Definition of Unaccounted Income and Wealth**

1. There is no uniform definition of unaccounted income in the literature or economic theory. Various names are used synonymously to refer to the unaccounted economy: parallel economy, black money, black incomes, unaccounted economy, illegal economy and irregular economy. On the basis of these various definitions Feige<sup>1</sup> had in 1990 identified four specific types of underground economic activities, illegal, unreported, unrecorded and informal and explored their nature, interrelationships and relevance for different economic issues. The definitions as reported by Feige are reproduced below:

- (i) **Illegal economy:** The illegal economy consists of the income produced by those economic activities pursued in violation of legal statutes defining the scope of legitimate forms of commerce. Participants of illegal economy engage in the production and distribution of prohibited goods (drugs, for example) and services (prostitution, counterfeit currency, arms and human trafficking etc).
- (ii) **Unreported economy:** The unreported economy consists of those economic activities that circumvent or evade the institutionally established fiscal rules as codified in the tax code. Since illegal income is taxable, the unreported income includes both legal and illegal source of income that is not properly reported. A complementary measure of the unreported economy is the “tax gap,” namely, the difference between the amount of tax revenues due to the fiscal authority and the amount of tax revenue actually collected.
- (iii) **Unrecorded economy:** The unrecorded economy consists of those economic activities that circumvent the institutional rules that define the reporting requirements of government statistical agencies. A summary measure of the

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<sup>1</sup> Feige, "Defining and Estimating Underground and Informal Economies: The New Institutional Economics Approach", World Development Vol 18, No. 7; July 1990

unrecorded economy is the amount of unrecorded income, namely the amount of income that should (under existing rules and conventions) be recorded in national accounting systems (e.g., national income and product accounts) but is not. Unrecorded income represents a discrepancy between total income / output and the actual amount of income or output captured or enumerated by the statistical accounting system. Since national accounting conventions differ with respect to the inclusion of illegal incomes, unrecorded incomes may or may not include incomes from the illegal sector.

- (iv) Informal economy: The informal economy comprises those economic activities that circumvent the costs and are excluded from the benefits and rights incorporated in the laws and administrative rules covering property relationships, commercial licensing, labor contracts, torts, financial credit and social security systems.

2. Thus it can be concluded that *“Unaccounted Income is the income from those economic activities that circumvent or otherwise avoid government regulation and taxation.”* (NIFM, 2012). This definition attempts to cover all illegal economic activities, i.e., trade with stolen goods; drug dealing, manufacturing; prostitution; gambling; smuggling; fraud; and like others, non-monetary illegal economic activities, i.e., Barter of drugs, stolen goods, smuggling, theft for own use, and like others. It also covers income from legal economic activities where tax is evaded, i.e. unreported income from self-employment; wages, salaries and assets from unreported work related to legal services and goods.

3. Black income activity does not end with generating black/unaccounted income; it also results in black consumption and black saving, which when accumulated results in black/unaccounted wealth. Black wealth itself is held in various forms – almost all the forms in which white wealth is held, whether in cash, fixed deposits with banks, other financial assets or tangible assets. Black money is that part of black wealth which is held in the form of money (currency plus demand deposit of banks)<sup>2</sup>.

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<sup>2</sup> Gupta, Suraj B. 1992 “ Black Income in India” :14-15

## **B Need for the Estimation of Unaccounted Income and Wealth**

4. As per the National Institute of Financial Management, there are several reasons which make the estimation of accurate size and trend of the shadow economy important for policy purpose.

Among the most important are:

- The unaccounted economy reduces the size of potential state revenue. The result can be a vicious circle of an increase in the budget deficits or tax rates, additional growth of the shadow economy, and may impact social welfare in general.
- To formulate effective monetary, labor and fiscal policy, it is crucial to know the level of precision in the estimates of key statistics of the economy, such as, output, price-level and unemployment. Given that these statistics are employed to generate economic policies, inaccurate figures may lead to inappropriate policy responses (see Fleming et al., 2003)<sup>3</sup>. Therefore, efforts are made to supplement official national accounts statistics with estimates of unaccounted economic activity.
- The effects of a growing unaccounted economy on the official one must also be considered. On the one hand, a prospering shadow economy may attract (domestic and foreign) workers away from the official economy and create competition for official firms. On the other hand, at least two-thirds of the income earned in the shadow economy is immediately spent in the official economy, thus having a positive effect on the official economy (Schneider and Enste, 2000)<sup>4</sup>.
- Some unaccounted economy activities, i.e., illicit trade in narcotics and arms trading, are hurtful not only for economy, but also hazardous for society

5. Accordingly the Standing Committee on Finance on Demand for Grants (2009-10) in its Second Report presented in Parliament on 2<sup>nd</sup> December, 2009 observed that:

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<sup>3</sup> Fleming, Mathew H. et al. "The Shadow Economy" (2015).

<sup>4</sup> Schneider, Friedrich, and Dominik H. Enste. 2000. "Shadow Economies: Size, Causes, and Consequences." *Journal of Economic Literature*, 38 (1): 77-114.

***“It has become imperative that the Ministry conducts a thorough assessment/survey on unaccounted income/wealth, particularly bringing out the nature of activities engendering money laundering both inside and outside the country with its ramifications on national security”***

Pursuant to the above, on 28th October 2010, Hon'ble Finance Minister accorded in principle approval for the study in respect of the above. It was decided that the study may be conducted separately by the three Institutes and the final view was to be taken by the Government. Due procedure was followed before deciding to get the study conducted separately and independently by National Institute of Public Finance and Policy (NIPFP), National Council of Applied Economic Research (NCAER) and National Institute of Financial Management (NIFM), separate MoUs were signed with these three Institutes on 21st March, 2011 and the study was assigned to them with the Terms of Reference (ToR), as mentioned below:

- (a) To assess / survey unaccounted income and wealth both inside and outside the country.
- (b) To profile the nature of activities engendering money laundering both inside and outside the country with its ramifications on national security.
- (c) To identify important sectors of economy in which unaccounted money is generated and examine causes and conditions that result in generation of unaccounted money.
- (d) To examine the methods employed in generation of unaccounted money and conversion of the same into accounted money.
- (e) To suggest ways and means for detection and prevention of unaccounted money and bringing the same into the mainstream of economy.
- (f) To suggest methods to be employed for bringing to tax unaccounted money kept outside India.
- (g) To estimate the quantum of non-payment of tax due to evasion by registered corporate bodies

## **C Sectors prone to the generation of Unaccounted Income**

6. The studies conducted by the above mentioned institutes have found that the sectors where unaccounted income is found to be highest included real estate, mining,

pharmaceuticals, pan masala, gutkka and tobacco industry, bullion and commodity markets, film industry, educational institutes and professionals. The other sectors namely securities market and manufacturing also showed high incidence of unaccounted income.

#### **D Estimates of Unaccounted Income and Wealth**

7. There are no reliable estimates of black money generation or accumulation neither is there an accurate well- accepted methodology for making such estimation. All estimates depend upon the underlying assumptions made and the sophistication of adjustments incorporated. Among the estimates made so far, there is no uniformity, or consensus about the best methodology or approach to be used for this purpose.

8. According to a publication of the Organisation for Economic Cooperation and Development (OECD) in 2002, estimates of unaccounted income can be derived by using three different methods:

- Monetary methods: This method assumes that the existence of, or changes in, the share of unaccounted incomes is reflected in the stocks or flows of money. It is assumed that cash is used to make transactions that agents want to keep hidden from official records and it is essentially based on the computation of discrepancies between declared income and the income implied by the observed currency demand.
- Global Indicator methods: Unaccounted income is modeled using a single universal variable (often a physical indicator), with which it's believed to be highly correlated, therefore these estimates are also called input based estimates. The estimated level of activity is compared to the reported level of GDP to identify under-reporting. Two distinct approaches have been used one based on electricity as the input other based on land freight transport as the input.
- Latent variable methods: Major approach is the "Multiple Indicators, Multiple Causes" (MIMIC) approach. The MIMIC approach explicitly considers several causes, as well as the multiple effects of the shadow economy. Two groups of variables are used for modeling. One group called 'causes', includes those that influence the size of unaccounted incomes, and the other called 'indicators', reflects the existence and/or dimensions of these activities. The methodology

makes use of the associations between the observable causes and the observable effects of an unobserved variable, in this case the underground economy, to estimate the unobserved factor itself. However since this approach only provides an index, in order to convert this index into a cardinal series we need to use a benchmark.

In addition to above, certain other methods have also been used.

- Survey based methods: It includes a range of micro approaches that use surveys and samples based on voluntary replies, or tax auditing and other compliance methods to measure the shadow economy. The estimates of tax avoided/evaded income can be inferred by applying the share of profit concealed, as obtained from survey, to operating surpluses or Mixed Income of various sectors estimated by the National Account Statistics.

9. Final study reports of National Institute of Public Policy and Finance, National Council of Applied Economic Research and the National Institute of Financial Management, indicate the following estimations of unaccounted income, arrived through different methods:

#### Unaccounted Income as % of reported GDP

Institute	Methods			
	Monetary Method	MIMIC Method	Other Methods	Other Methods
NIPFP	<u>Currency based:</u> 100%	72%	72%	72%
	<u>M1 based:</u> 43% <u>M3 based:</u> 10% (2008-09)	(2009-10) <u>[MAIN RESULT]</u>	(2009-10) [Land freight transport method]	(2009-10) [State Space method]
NIFM	<u>Currency/M3 model:</u> 42%	7%	17%	10%
	<u>Real Currency model:</u> 39% (2009-10)	(2010-11)	(2009-10) [Electricity model]	(2010-11) [Dynamic MIMIC model] <u>[MAIN RESULT]</u>
NCAER	Tax related : 65.34%	Only index	120% (2010-11)	55% (2010-11)

	Non-tax corruption related : 19.57% 71% to 79% (2010-11) <u>[MAIN RESULT]</u>	estimated which shows declining trend in 90s bottoming around 1998 and increasing trend thereafter	Cross country pooled regression method with energy consumption as input [not a very prudent method]	Direct method using survey data and national accounts statistics <u>[ALTERNATIVE MAIN RESULT]</u>
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**E Estimates of Unaccounted Wealth outside the country**

10. Illegal capital flight is generated through a number of means that are not revealed in the National Accounts or Balance of payments figures, these include trade mispricing, bulk cash movements, hawala transactions and smuggling. As per Kar and Cartwright – Smith (2008)<sup>5</sup>, illicit financial flows ‘involve the cross border transfer of the proceeds of corruption, trade in contraband goods, criminal activities, and tax evasion’.

11. Various methods for estimating illicit flows include Trade misinvoicing method, World Bank residual method, and Tax Justice Network’s measure of illicit flows. Trade misinvoicing method estimate the flow of illicit flow using trade data reported by both parties in the transaction, that is, the exporter and the importer country. The World Bank residual method, Tax Justice Network’s method constructs the inflows (sources) and outflows (uses) of funds on the basis of statistics reported in the balance of payments and external debt statements. Any difference between the sources and uses are reported as illicit flows into or out of the country.

On the basis of above methods, the studies conducted by the above mentioned institutes have estimated Unaccounted Wealth outside the country as stated below:

National Institute of Public Policy and Finance (NIPFP): During the period 1997-2009 illicit financial flows out of the country have been in the range of 0.2% to 7.4% of GDP.

National Council of Applied Economic Research (NCAER): Wealth accumulated outside India is estimated to exist between USD 384 billion and USD 490 billion during the

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<sup>5</sup> Kar, Dev and Cartwright-Smith, Devon “Illicit Financial Flows from Developing Countries:2002-2006” (2008)

period 1980 to 2010.

National Institute of Financial Management (NIFM): Results of estimation suggest that total illicit outflow at the present value (including opportunity cost) from India in the reform period (1990-2008) is Rs. 941837 crore (USD 216.48 billion). Importantly, illicit outflows from the country are estimated on average to 10% of the estimated unaccounted income.

## **F Inferences from the studies**

12. It appears that the reliable estimation of unaccounted income and wealth inside and outside the country is a difficult task, this inference is validated by the widely varying estimates of the unaccounted income arrived at by these three institutes. The Chief Economic Adviser has opined that there is no scope for arriving at a common estimate of unaccounted income by combining estimates from the three reports.

The Revenue Secretary during the course of oral evidence deposed that:

“As regards the macro estimation of unaccounted income and wealth, the three studies have observed that the reliable estimation of unaccounted income and wealth is extremely difficult. These studies themselves have observed that it is extremely difficult. They have also reported a very huge variation in estimations of unaccounted income ranging from 7 per cent to 120 per cent of the reported GDP. There is a lack of consensus regarding the most suitable method in the Indian context.”

In view of the above, the unaccounted income and wealth inside and outside the country do not appear amenable to credible estimation in the context of India.

## Chapter - II

### Tackling the Menace of Unaccounted/Black Income

#### A Legislative mechanisms

13. A number of proactive steps have been recently taken in order to create an appropriate legislative framework for preventing the generation of black money and its detection. Some of the major steps taken include:

- Enactment of Central & various state Good & Service Taxes Act
- Enactment of the Black Money (Undisclosed Foreign Income and assets) and Imposition of Tax Act, 2015
- Comprehensive amendment of the Prohibition of Benami Property Transactions Act, 1988 and its operationalization w.e.f. 01.11.2016
- Fugitive Economic Offenders Act, 2018
- For implementation of Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) necessary legislative changes have been made in the Income –Tax Act, 1961 and Income-Tax Rules, 1962
- Section 10(38) of the Income Tax Act has been amended to prevent the misuse of exemption by certain persons for declaring their unaccounted income as exempt long term capital gains by entering into sham transactions
- In order to check creation of shell companies which are incorporated outside but controlled from India, the concept of 'Place of Effective Management' (POEM) for determination of residence of a company incorporated in a foreign jurisdiction, has been introduced in the Finance Act, 2016
- Country-by-Country reporting in respect of an international group has been introduced , vide the Finance Act 2016, to address issues relating to base erosion and profit shifting
- In order to eliminate bogus/multiple permanent account number (PAN), a new section 139AA has been inserted in the Income-Tax Act, which mandates quoting of Aadhaar number for filing of return of Income and in PAN application form

## **B Administrative mechanisms and Systems improvement**

14. In addition to creating adequate legislative deterrence, measures have also been taken to widen the ambit of rules, plug existing loopholes and build capacity within the department to ensure a holistic approach against the generation, concealment and transmission of black money.

- Expanding the ambit of TDS/TCS provisions with a view to track transactions of certain more vulnerable sectors/areas such as immovable property transactions, motor vehicles, coal, lignite & iron ore, rental income, etc.
- In order to ensure tracking of entities and their owners/key persons which enter into financial transactions of Rs 2.50 lakh or more in a Financial Year, obtaining of PAN is mandated
- With a view to curb receipt of unaccounted cash on sale of inventory of immovable properties by builders, deeming of stamp duty value of immovable property as sale consideration where stamp duty value is greater than the sale consideration
- General Anti Avoidance Rules (GAAR) have been implemented with a view to tacking aggressive tax planning with the use of complicated structures
- In the place of earlier Annual Information Return (AIR)/ Central Information Branch (CIB) regime, a new comprehensive and wider coverage scheme – Statement of Financial Transactions (SFT) regime has been introduced. The amended rules widened the scope of quoting PAN/reporting of transactions by including transactions such as cash deposit/withdrawal from current account with a bank, transactions of buy back of shares, sale of foreign currency, cash payments for sale of goods/services etc.
- Measures to reduce cash transactions like
  - ✓ Disallowance of cash payments of more than Rs.10000 in business or profession.
  - ✓ Prohibition of cash receipts of Rs.2 lakh or more and penalty of sum equal to amount of such receipt if a person contravenes these provisions

- ✓ limit of cash donation to charitable organisation has been reduced from Rs.10000 to Rs.2000
- ✓ Existing rate of presumptive profit of small business has been reduced from 8 per cent to 6 per cent in respect of the amount of total turnover or gross receipts received through the banking channel.
- ✓ No payment and receipt of advance of Rs.20000 or more in relation to transfer of immovable property in cash.
- ✓ To bring transparency in the source of funding to the political parties, the provision of Section 13A of the Income Tax Act has been amended to provide that no donation of Rs.2000 or more is received or given in cash.

On being queried as to the systemic improvements that have been taken to deal with black money, the Chairman, Central Board of Direct Taxes, during the course of oral evidence deposed as under:

“We have the scheme of Non-filers Monitoring System. This was launched to have focused attention on non-filers with potential tax liabilities. The Non-filers Monitoring System assimilates and analyses in-house information as well as transactional data received from third parties to identify persons who had undertaken high value financial transactions but did not file their returns. There is another project called Project Insight which was initiated to strengthen the non-intrusive information driven approach for improving compliance and effective utilization of information in all areas of tax administration. Under Project Insight, an integrated data warehousing and business intelligence platform is being rolled out in a phased manner. Under this project, Income Tax Transaction Analysis Centre (INTRAC) has been operationalised for handling data integration, data warehousing, data quality management and data enrichment including data analytics. A dedicated reporting portal has also been rolled out to provide a comprehensive interface between the reporting entities and the Income Tax Department. ‘Insight Platform’ is being used for identification of high-risk non-filers under NMS, selection of cases under Computer Aided Scrutiny Selection and a centralized processing of information received under automatic exchange of information. A dedicated compliance portal has been rolled out by the Income Tax Department to capture responses on compliance issues in a structured manner. The Compliance Management Central

Processing Centre has also been operationalised for leveraging campaign management approach that is, consisting of e-mails, SMS, reminders, outbound calls, letters, to support the voluntary compliance and resolution of compliance issues. The 'E-Sahyog' Pilot was also launched in 2015 as a pilot project to enable small tax payers in submitting online response, in cases involving information mismatch, without any need to come to the Income Tax Office”

## **C International Cooperative mechanisms**

15. In a globalized world, where all stakeholders are interdependent, no country can take unilateral measures without adversely impacting its own interests. Thus, in such a scenario, there is greater need to integrate with international efforts and use the international platforms for achieving domestic strategies aimed at curbing black money generation within the country. To achieve this end, various steps have been taken by the government, which include:

- With a view to facilitate and enhance exchange of information under the Tax Treaties, India is pro-actively engaging with the foreign Governments and has signed Tax Treaty framework with 146 foreign jurisdictions.
- An Inter-Governmental Agreement between India and USA was signed for implementation of Foreign Account Tax Compliance Act (FATCA).
- The Government of India has also joined the Multilateral Competent Authority Agreement (MCAA) for Automatic Exchange of Information as per Common Reporting Standards (CRS).
- Amendment of the India – Mauritius Double Taxation Avoidance Agreement (DTAA) to provide for source-based taxation of capital gains on shares and income of banks. The protocol would help tackle treaty abuse and round tripping of funds attributed to the India-Mauritius treaty. It would also improve transparency in tax matters and help curb tax evasion and tax avoidance.
- Amendment of India – Singapore Double Taxation Avoidance Agreement (DTAA) to provide for source-based taxation of capital gains on shares, to enable measures concerning prevention of tax evasion and tax avoidance.

## **D Judicial efforts**

16. In addition to legislative and administrative efforts, the judiciary has also taken note of the menace of black money. On the directions of the Hon'ble Supreme Court , the government in May 2014 has constituted the Special Investigation Team (SIT) on black money under the chairmanship and vice-chairmanship of two former Judges of Hon'ble Supreme Court. The SIT has so far submitted seven reports to Hon'ble Supreme Court.

**17. As only a limited number of stakeholders could be examined by the Committee, owing to paucity of time, this report might be considered as a preliminary report, pending examination of other witnesses including non-official witnesses or experts on the subject and post evidence replies of the Ministry which are awaited.**

**18. In the meantime, the Committee would expect the Ministry of Finance (Department of Revenue) to continue their efforts with greater vigour to unearth and bring to book unaccounted income/wealth both within and outside the country including follow-up action on the seven reports of the Special Investigation Team (SIT) constituted on Black Money as well as the three study reports on estimation of unaccounted money. The Committee would thus expect more fruitful outcomes on this count, both in terms of much wider tax base as well as actual tax yield. In this context, the Committee also desire that the long-delayed Direct Taxes code should also be finalised at the earliest and re-introduced in Parliament with a view to simplifying and rationalising the direct tax laws in the country. The Committee would formulate their detailed recommendations on this subject after conclusion of the examination/evidences on the subject. In the interim, the Ministry of Finance (Department of Revenue) should furnish Action Taken Replies to the Committee within three months.**

**Minutes of the Fourteenth sitting of the Standing Committee on Finance (2018-19).  
The Committee sat on Thursday, the 21<sup>st</sup> February, 2019 from 1100hrs. to 1330hrs.  
in Committee Room 'D', Parliament House Annexe Ext. Block A, New Delhi.**

**PRESENT**

**Dr. M. Veerappa Moily - Chairperson**

**LOK SABHA**

2. Shri Nishikant Dubey
3. Shri Bhartruhari Mahtab
4. Prof. Saugata Roy
5. Shri Gopal Chinnaya Shetty
6. Dr. Kirit Somaiya
7. Shri Dinesh Trivedi

**RAJYA SABHA**

8. Shri Anil Desai
9. Dr. Narendra Jadhav
10. Dr. Manmohan Singh

**SECRETARIAT**

- |    |                              |   |                     |
|----|------------------------------|---|---------------------|
| 1. | Shri Rajesh Ranjan Kumar     | - | Director            |
| 2. | Shri Ramkumar Suryanarayanan | - | Director            |
| 3. | Shri Kulmohan Singh Arora    | - | Additional Director |
| 4. | Shri Tenzin Gyaltsen         | - | Under Secretary     |

## WITNESSES

### MINISTRY OF FINANCE (DEPARTMENT OF REVENUE) & CENTRAL BOARD OF DIRECT TAXES (CBDT)

1. Shri Ajay Bhushan Pandey, Secretary
2. Shri Pramod Chandra Mody, Chairman, CBDT
3. Smt. Pragya S. Saksena, Principal Commissioner of Income-Tax (OSD)
4. Shri R.K. Yadav, Principal Director of Income Tax (Investigation)-2
5. Shri S.K. Singh, Commissioner (Investigation), CBDT
6. Shri Rajesh Kumar Bhoot, Joint Secretary (TPL-II), CBDT

2. At the outset, the Chairperson welcomed the Members and the witnesses to the sitting of the Committee. After the customary introduction of the witnesses, the Chairperson initiated the discussion on the subject 'Status of unaccounted income/wealth both inside the country and abroad'. The major issues discussed include the wide divergence in the estimates of black money in the studies carried out by the three institutes (National Institute of Public Policy and Finance, National Council of Applied Economic Research and the National Institute of Financial Management), actions that have been taken by the government to curb the generation of black money, quantum of increase in tax/GDP ratio and individual tax collections post-demonetization, the high value of tax refunds given to corporate entities and interest paid thereon, the low rate of conviction in tax fraud cases and the modalities followed by the Income Tax department in cases of tax raids/seizures, the exact figures of nonpayment of tax by registered corporate bodies, whether India has entered into Double Taxation Avoidance Agreements (DTAA's) with all tax haven countries, if these agreements allow repatriation of illegally stashed money abroad and whether they include provisions to investigate fraudulent trusts opened by Indians in these jurisdictions for the purpose of tax avoidance. The members also discussed issues like whether initiatives like the electoral bonds scheme would lead to an increase in the inflow of black money into political funding; the credibility of tax audit reports filed by Chartered Accountants (CA) and action taken against them, efficacy of limits imposed on cash transactions and the extent of trade based money laundering (TBML).

The Committee directed the Department of Revenue to circulate the reports of the studies carried out by the aforementioned three institutes to the members of the Committee at the earliest, and also placed the onus on the government to decide whether these reports should be placed in the public domain. The Committee did not have any reservation in this regard. The witnesses responded to the queries raised by the Members on the subject. The Committee directed the witnesses to furnish written replies to the queries which could not be readily replied by them during the sitting, within a week.

The witnesses then withdrew.

(A verbatim record of the proceedings has been kept)

The Committee then adjourned.

**Minutes of the Fifteenth sitting of the Standing Committee on Finance (2018-19).  
The Committee sat on Thursday, the 07<sup>th</sup> March, 2019 from 1100hrs. to 1300hrs. in  
Committee Room '2', Parliament House Annexe Ext. Block A, New Delhi.**

**PRESENT**

**Dr. M. Veerappa Moily - Chairperson**

**LOK SABHA**

2. Shri Kunwar Pushpendra Singh Chandel
3. Shri Nishikant Dubey
4. Shri Rattan Lal Kataria
5. Shri Bhartruhari Mahtab
6. Prof. Saugata Roy
7. Shri Rajiv Pratap Rudy
8. Shri Gopal Chinnaya Shetty
9. Shri Dinesh Trivedi

**RAJYA SABHA**

10. Shri Anil Desai
11. Dr. Narendra Jadhav
12. Shri A. Navaneethakrishnan
13. Dr. Mahendra Prasad
14. Dr. Manmohan Singh

**SECRETARIAT**

- |    |                              |   |                     |
|----|------------------------------|---|---------------------|
| 1. | Shri N.C. Gupta              | - | Joint Secretary     |
| 1. | Shri Rajesh Ranjan Kumar     | - | Director            |
| 2. | Shri Ramkumar Suryanarayanan | - | Director            |
| 3. | Shri Kulmohan Singh Arora    | - | Additional Director |

## WITNESSES

### ENFORCEMENT DIRECTORATE

1. Shri Sanjay Kumar Mishra, Director of Enforcement
2. Shri Simanchala Dash, Principal Special Director
3. Shri Devinder Kumar Gupta, Special Director
4. Shri A.C. Singh, Deputy Legal Adviser

### SERIOUS FRAUD INVESTIGATION OFFICE (SFIO)

1. Shri Amardeep Singh Bhatia, Director
2. Shri P.C. Maurya, Additional Director
3. Shri Sanjay Sood, Additional Director
4. Shri Vijay Gupta, Expert (Banking)

2. At the outset, the Chairperson welcomed the Members and the witnesses to the sitting of the Committee. After the customary introduction of the witnesses, the Chairperson initiated the discussion on the subject 'Status of unaccounted income/wealth both inside the country and abroad – A Critical Analysis'. The major issues discussed included delays on part of the concerned agencies in investigating major scams like the Sharda Chit Fund scam, Rose Valley Chit Fund scam etc, modus operandi adopted by different companies to launder money, impact of demonetization on Black money, lack of proper coordination between the various agencies involved in tackling the Black money menace, as highlighted by the Vohra Committee, lack of expertise of agencies to tackle increasing number of cybercrimes, the extent to which the political system itself is responsible for the generation of black money and whether any study has been undertaken in this regard, number of high value cases registered by the Enforcement Directorate in the past two years under the Foreign Exchange Management Act, 1999 (FEMA) and the convictions secured thereof, steps taken by the Enforcement Directorate (ED) under the Prevention of Money Laundering Act, 2002 (PMLA) to attach and confiscate proceeds of crime and the status of prosecution cases launched thereof, action taken by the Enforcement Directorate (ED) on the reports submitted by the Special Investigation Team(SIT) on Black money, need for relook at

the functional independence and for dedicated separate cadres for these agencies, number of shell companies that have been unearthed and closed down by the Serious Fraud Investigations Office (SFIO) and details of further actions that had been undertaken in this regard, cases where money laundered had been used for terrorist operations and details of unscrupulous banks that facilitate money laundering, the limitations of existing Tax Information Exchange Agreements, Double Taxation Avoidance Agreements and whether the agencies have the competency to analyze the huge volumes of data made available under these agreements, etc .

3. The witnesses responded to the queries raised by the Members on the subject. The Committee directed the witnesses to furnish written replies to the queries which could not be readily replied by them during the sitting within a week.

(The witnesses then withdrew)

4. The Committee, thereafter, took up the Draft Preliminary report on the subject 'Status of unaccounted income/wealth both inside the country and abroad – A Critical Analysis' for consideration and adoption. After some deliberation, the Committee adopted the above Draft Preliminary report with minor modifications and authorized the Chairperson to finalise and present the same to the Hon'ble Speaker. The Chairperson also wished to place on record that while the draft report on the subject 'Demonetisation of Indian Currency notes of Rs 500 and Rs 1000 and ramifications thereof' had been prepared and circulated to the Members on earlier occasion, the same could not be adopted by the Committee due to lack of consensus among the members of the Committee.

5. The Chairperson and members also conveyed their appreciation for the excellent work done and support extended to them by the Officers and Staff of the Secretariat.

(A verbatim record of the proceedings has been kept)

The Committee then adjourned.