

OPERATION CLEAN MONEY

Status Report

May, 2017

Income Tax Department



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About This Document

This document presents the strategy and current status of Operation Clean Money. It intends to explain the Income-tax Department's approach to verification of cash deposits as a means to promote and enhance voluntary compliance. It also contains a section on the different modus operandi adopted by tax evaders as observed and documented by the Department for future use and guidance.

Background

On 8th November 2016, the Government of India announced demonetisation of all ₹500 and ₹1,000 banknotes, inter alia, to curtail the black economy and crack down on the use of unaccounted and counterfeit cash to fund illegal activities and terrorism.

Immediate Response

During November 2016 to January 2017, the Income Tax Department (ITD) took a series of steps to build a strong foundation towards achieving the objectives of demonetisation. Two of the key steps taken as an immediate response were strengthening of the data collection mechanism and focused enforcement actions.

Information about high value cash deposits was collected from FIU-IND. Further, the obligation to report Statement of Financial Transactions (SFT) was amended for submission of data related to demonetisation period, by January 31, 2017.

Under the Statement of Financial Transactions (SFT), the banks and post-offices were required to report aggregating deposits of Rs.12.50 lakhs or above in case of current account and Rs. 2.50 lakhs or above in case of accounts other than current accounts, for the period between November 9, 2016 and December 30, 2016. For such reporting entities, similar cash deposits for the period April 1, 2016 to November 8, 2016 were also to be reported.

Pradhan Mantri Garib Kalyan Yojana, 2016 (PMGKY) was launched on 17th December 2016. Declaration under the Scheme could be made by any person in respect of undisclosed income in the form of cash or deposits, in an account with bank or post office or specified entity. Such declarations followed by payments of specified taxes/deposits entitled the declarants with immunity from penal consequences including criminal prosecutions.



Operation Clean Money

Operation Clean Money (OCM) was launched on 31st January 2017, with the mission to **“Create a tax compliant society through a fair, transparent and non-intrusive tax administration where every Indian takes pride in paying taxes”**.

Focus Areas

The key focus areas of Operation Clean Money are:

Citizen Focus	Department Focus	Ecosystem Focus
<ul style="list-style-type: none">• Increase awareness about tax obligations using a comprehensive citizen engagement approach• Promote voluntary compliance, reduce taxpayer compliance costs• Encourage timely and accurate returns and payment of taxes• Effective deterrence for habitual offenders	<ul style="list-style-type: none">• Encourage timely and accurate information from Reporting Entities• Increase collaboration and data exchange with government agencies• Effective identification, assessment and management of risks by leveraging technology and data analytics• Enable verification and investigation function by providing accurate and actionable information• Status tracking of field verification and enforcement actions	<ul style="list-style-type: none">• Develop strong partnerships with the tax professionals and service providers to create a sustainable compliance environment• Regular engagement with Trade Bodies/ Industry Associations

Figure 1: Operation Clean Money Focus Areas



Operation Clean Money Phase I (February 2017 to April 2017)

The first phase of Operation Clean Money focused on three key areas namely, preliminary assessment, e-verification process, and targeted enforcement actions.

Preliminary Assessment

The cash deposit data was analysed to identify persons whose cash transactions did not appear in line with their tax paying profile. This analysis resulted in identification of about 17.92 lakh persons for verification process. Preliminary assessment was undertaken to analyse distribution of large cash deposits across various taxpayer segments (e.g. Business, Non-business etc.), business segments (e.g. trading, builders, etc.), geography (state-wise distribution) etc.

E-verification Process

Online verification of cash transactions was enabled and the information in respect of the identified cases was made available in the e filing window of the PAN holder (after log in) at the portal <https://incometaxindiaefiling.gov.in>. The taxpayer was able to submit online explanation without any need to visit Income Tax office. Detailed user guide, quick reference guide and Frequently Asked Question (FAQs) were published to assist the taxpayer in submitting online response.

Email and SMS were sent to the taxpayers for submitting online response on the e-filing portal. ITD also released advertisements to educate taxpayers about registration and submission of online response.

There has been an encouraging response to the online verification scheme and till 12th May more than 9.72 lakh taxpayers submitted their response without visiting Income tax office. Salient features of the e-verification process are as under:

- Taxpayers have provided response for 13.33 lakh accounts involving cash deposits of around Rs.2.89 lakh crore.
- Taxpayers provided details of additional 41,600 bank accounts in which cash was deposited.
- Main sources of cash deposits as submitted by taxpayers are as under:

Cash Sales	57.5%
Cash out of earlier income or savings	20.0%
Other Cash Receipt	9.6%
Cash out of receipts exempt from tax	4.2%
Cash withdrawn out of bank account	4.1%
Loan repayment in Cash	2.9%
Others	1.7%



Enforcement Actions

Based on continuous data analysis undertaken by ITD, high risk cases were identified where enforcement action was initiated. Salient features of enforcement actions undertaken by ITD during Phase I of Operation Clean Money were as under:

- Search actions were conducted on nearly 900 groups in which undisclosed income of Rs. 16,398 crore was admitted. Assets valued at Rs. 900 crore (including Rs. 636 crore in Cash) were seized.
- Survey actions were conducted in 8,239 cases in which undisclosed income of Rs. 6,746 crore was detected.
- More than 400 cases were referred to ED/CBI and 56 persons were arrested.

The enforcement actions identified modus operandi for conversion of unaccounted cash which included the following:

- Unexplained cash deposits by bullion traders and jewellers
- Unexplained cash deposits by Petrol pumps
- Unexplained cash deposits by Traders
- Unexplained cash deposits by Contractors and Real Estate Developers
- Unexplained cash deposits by Professionals
- Unexplained cash deposits by Government Employees
- Irregularities in cooperative banks and societies
- Unexplained cash deposits in name of employees
- Cash deposits through Shell companies
- Abuse of Exemptions provided for North Eastern states

Representative cases of each of the modus operandi are given in **Annexure A**.



Operation Clean Money Phase II (May 2017 onwards)

ITD on-boarded two specialised data analytics agencies and a business process management agency to augment departmental capability in analyzing large volume of cash deposit data, track the compliance status of taxpayers and reporting entities.

Phase II of Operation Clean Money includes following set of activities:

- Comprehensive risk assessment
- Differentiated targeted treatment
- Enable citizen engagement
- Identification of new cases for online verification
- Identification of high risk cases using advanced analytical techniques
- Ensuring complete and accurate reporting of information

Comprehensive Risk Assessment

A comprehensive risk assessment (rule based) framework has been developed to identify cases with different levels of risk¹ (High, Medium, Low, and Very Low). The number of persons of the 1st batch² (including response as well as no response cases) under each risk category is as under:

Risk Category	Description	Persons
High Risk	High risk issue with high Value at Risk (VaR)	1.00 lakh
Medium Risk	High risk issue with low Value at Risk (VaR)	7.54 lakh
Low Risk	No issue flagged	5.95 lakh
Very Low Risk	Very low risk case	3.41 lakh

The framework also identifies specific risk issues for the flagged cases. The description of some high risk issues for cases where response has been received, are described in **Annexure B**. The framework is currently being applied to identify cases for differentiated targeting, computation of Value at Risk (VaR) and to predict likelihood of occurrence of various events and outcomes.

¹The risk category is dynamic and changes with receipt of new data or submission of response.

² The number of persons is likely to increase with additional persons identified in the second batch.

Differentiated Targeted Treatment

One of the pillars of Operation Clean Money is fair, transparent and non-intrusive tax administration. While the high risk cases will be handled by selecting appropriate enforcement action (verification, search, survey, scrutiny), a targeted campaign will be initiated in cases with identified risk issues. The key components of the targeted campaign are:

- Communication of specific issue through digital channels (Email, SMS etc.)
- Providing detailed explanation to create environment of transparency
- Explain investigation findings for specific segments (e.g. jewellers, petrol pump, traders, property purchasers etc.)
- Centralised monitoring and gradual escalation of inadequate response cases for enforcement action

The low risk cases will be monitored for tax compliance and corrective action will be taken at appropriate time.

Enable Citizen Engagement

The mission statement of Operation Clean Money states “.. where every Indian takes pride in paying taxes”. Towards this objective, the Income Tax Department is taking steps to engage with the citizens on a continuous basis. Some of the key initiatives include:



Figure 2: Citizen Engagement mechanism



Identification of high risk groups/cases using advanced analytics

Besides the rule based risk assessment, ITD is using relationship, cluster and fund flow analysis to identify high risk groups/cases such as:

- Persons/groups splitting cash deposits in multiple accounts to avoid reporting
- High value cash deposit and purchase of property after demonetisation
- High value cash deposit and purchase of property by related party
- High value cash deposit and outward foreign remittances after demonetisation
- High value cash deposit and outward foreign remittances by related party
- Cash deposit by Government/PSU employees
- Clusters of non-PAN accounts with similar name and address
- Clusters of non-PAN accounts with similar name and mobile number
- Persons/groups related to no response cases
- Persons paying cash to other parties (from response data)

A streamlined mechanism for verification of above cases is being implemented.

Identification of New Cases for Online Verification

With the continuous flow of information from various sources including Statement of Financial Transactions (SFT), ITD is conducting analysis in conjunction with previously available/analysed data. Such incremental data analysis has already led to identification of new cases for e-verification. Furthermore, ITD has also identified taxpayers who made partial declaration of accounts/amounts in their earlier responses.

- 3.71 lakh accounts relating to 1.58 lakh old cases were identified, which were not disclosed in response previously.
- 5.68 lakh new cases (in addition to earlier 17.92 lakh cases) have been identified for e-verification process.

Ensuring complete and accurate reporting of information

Section 285BA of the Income Tax Act, 1961 requires specified reporting persons to furnish statement of financial transaction. Rule 114E specifies that the statement of financial transaction shall be furnished in Form No. 61A. The transaction types under SFT are as under:

- SFT- 001: Purchase of bank drafts or pay orders in cash
- SFT- 002: Purchase of pre-paid instruments in cash
- SFT- 003: Cash deposit in current account
- SFT- 004: Cash deposit in account other than current account
- SFT- 005: Time deposit
- SFT- 006: Payment for credit card
- SFT- 007: Purchase of debentures
- SFT- 008: Purchase of shares
- SFT- 009: Buy back of shares
- SFT- 010: Purchase of mutual fund units



- SFT- 011: Purchase of foreign currency
- SFT- 012: Purchase or sale of immovable property
- SFT- 013: Cash payment for goods and services
- SFT- 014: Cash deposits during specified period (9th Nov to 30th Dec, 2016).

Following resources have been released to assist the reporting entities in complying with their obligations.

Systems Notification No.1 dated 17 Jan 2017 on SFT	Notification issued by the Directorate of Systems specifying the procedures, data structures and standards for ensuring secure capture and transmission of data, evolving and implementing appropriate security, archival and retrieval policies
User Manual for ITDREIN Registration and Upload	User Manual to explain steps in registration of filer and upload of SFT (Form 61A)
SFT Report Generation Utility User Guide	User Guide to explain steps in using the Java utility to assist the filer in preparation of SFT (Form 61A) in XML file
SFT Quick Reference Guide	One page document with steps for preparation of SFT
SFT Report Generation Utility	Java utility to assist the filer in preparation of SFT (Form 61A) in XML file
Form 61A Schema (For Developers)	XSD file which contains the schema in which SFT (Form 61A) needs to be prepared and uploaded/submitted

Compliance of reporting entities is also being monitored to ensure complete and accurate reporting, made possible through use of advanced data analytics. Monitoring is across the following aspects:

- Registration of Reporting Entities
- Filing of SFTs
- Data completeness (e.g. whether aggregation rule has been implemented)
- Data accuracy (e.g. whether submitted data has defects)

ITD is reaching out to Reporting Entities for the submission/ re-submission of complete and accurate reports.



Annexure A – Modus Operandi adopted for conversion of unaccounted cash

Unexplained cash deposits by bullion traders and Jewellers

The first impulse to covert black money held in cash was visible in the bullion and jewelry market. Large scale conversion of unaccounted cash was done by jewellers and bullion traders through following methods:

- Back dating of sales
- Splitting of sale bills to avoid PAN reporting norms
- Providing entries through bogus sales
- Layering transactions to hide the identity of the ultimate beneficiary
- Acceptance of advances in cash against future sales

Income Tax Department (ITD) took swift action and a large number of surveys and searches across the country were conducted on jewellers in the first week after demonetisation. ITD also, in a large number of cases, called for the stock and sales position of these entities as on 8 November, 2016 to eliminate manipulation at the end of financial year.

Case 1: Hyderabad based Jeweller

Investigations were initiated on the Group on receipt of information that cash of Rs. 97 crore had been deposited in demonetised currency notes. During investigations, the Group claimed to have received cash from various customers on 8 November, 2016 from 9:00 pm onwards towards advance for purchase of bullion. The irregularities found during search actions are as under:

- It was claimed that cash advances of Rs. 90 crore were taken on 8 November from 0900 hrs from 5,200 customers. Declaration letters were, however, furnished for only 65 persons. It was also seen that cash receipts and sale invoices for these advances were for amounts below Rs. 2 lakhs and did not have PAN details.
- Statement of the security guard on night duty was also recorded who stated that no one had visited the premises from 8:00 pm onwards on 8th November, 2016.
- The premises was under CCTV surveillance, however no footage for 8th November was available, which the Director claimed had been overwritten.

From the evidences prima facie the conclusion drawn was that the two companies had facilitated conversion of unaccounted cash of beneficiaries into bullion through making dubious claims of receipts of cash advance from 5,200 persons without any evidences. The case has been also referred to ED and CBI for appropriate action.



Case 2: Bhopal based Jewellers

Specific intelligence was gathered that in Madhya Pradesh, many persons with unaccounted cash were purchasing jewelry and the jewellers were accepting old notes. Search actions were conducted on three jewellers. The irregularities found during search actions are as under:

- One entity with annual turnover of approx. Rs. 8 crore had booked sales of more than Rs. 17 crore in first week of November, out of which Rs. 10.7 crore were booked as advance against future sale.
- Instances were detected where bills of large amount of sale were been split in multiple bills of less than 2 lakhs each.
- The names of customers on these bills were found to be partial and incomplete.
- The sequence of bill and the time of sale did not match in a coherent way. For example bill number 1001 was issued prior to bill number 1000 pointing to deliberate backdating.

The jewellers admitted undisclosed income of more than Rs.15 crore.

Case 3: Patiala based Jeweller

Survey was undertaken in this case on the basis of information on cash deposits of Rs. 11 crore made by the group on 11th November 2016 in their bank account.

Prima facie, it appeared that the books had been manipulated by the group to engage in cash sales in SBNs post 8 November, 2016. Forensic Imaging of the digital data was done that resulted in recovery of certain deleted/modified files which revealed that assessee had manipulated his sales invoices by back dating the bills for the period between 01/10/2016 to 08/11/2016. It was found that bills issued between the above period were actually generated in the system after 8/11/2016.



Unexplained cash deposits by Petrol pumps

Investigation in petrol pump cases shows unaccounted cash was deposited by petrol pumps as fictitious sale.

Case 4: Rajkot Based Petrol Pumps

Analysis of cash deposits data during demonetisation period revealed that there were more than 110 petrol pumps under Rajkot charge which had deposited cash of Rs 190 crore during demonetisation. On an average, it was found that one-fifth is the excess cash deposited in the pumps over and above the sales made in the corresponding period.

Demonetisation data was compared with average monthly sale of last year. The bank statements were also gone through for further analysis like periodicity and magnitude of cash receipts and payments. Cases, where deviations were observed beyond 25%, were selected for survey, as the government had allowed petrol pumps to accept SBN notes against sale during demonetisation. The exercise led to detection of discrepancies of more than Rs. 10 crore in 9 surveys.

Unexplained cash deposits by Traders

Several actions on traders were conducted post the announcement of the demonetisation scheme by the Government. These actions revealed that the unaccounted cash found in their possession was mostly part of their unaccounted incomes, which they were forced to deposit in bank accounts or were seized by various agencies during the demonetisation period. These were sought to be passed off as cash sales.

Case 5: Delhi Based Bitumen Trader

In case of a bitumen and jewellery trader, cash of Rs. 150 crore was deposited in the bank accounts post 8th November, 2016. These deposits were sought to be explained as cash sales by making backdated entries in Tally software, with all entries of local cash sales of exactly the same amount of Rs. 1,99,500/-. He also accepted cash in SBNs and facilitated purchase of gold post 8 November. Two major parties, to which gold was shown to be sold, were in Jaipur. A commission was sent to Jaipur, for spot verification, but no entity was found at the given addresses. The total sale to these parties was around Rs. 135 crore as per the searched person's books of accounts. When confronted evidence from Jaipur, major partner of the firm, revised his statement and admitted that he had accepted that cash in SBNs from various parties, which he had deposited in his accounts and had in turn supplied gold bars to them in lieu of cash. He also provided names and mobile numbers of the parties to whom he had sold gold. He admitted that he made daily entries of cash received and gold bars given on paper slips, which were destroyed the same day. The names and mobile numbers were verified from the contacts of the mobile of the searched person. During the search proceedings, the person admitted Rs. 18 crore as his undisclosed income.

**Case 6: Patna Based Traders**

Cash was recovered from two individuals by the police. Investigations were initiated by the department post the police action. In one case, the seizure was of Rs. 31.5 lakhs from the proprietor of a business entity, as he failed to explain the source of the cash in his possession. In the second case, the individual was found to be a wholesaler of sarees. He admitted that the cash found in his possession was his undisclosed income. He was found to have not maintained any books of accounts of his business. Rs. 1.05 crore was seized from the wholesaler.

Unexplained cash deposits by Contractors and Real Estate Developers

In the case of contractors and real estate developers, cash was deposited in accounts and either shown as advances from customers or sales. In several cases, the cash was offered as undisclosed incomes, without any explanation regarding its source.

Case 7: Bangalore Based Contractors

Two major civil contractors of Bangalore who undertake state government civil contract works from irrigation and other departments, were alleged to have engaged in massive inflation of expenses and investment of unaccounted income in purchase of immovable properties. Discreet enquiries also revealed that they were helping in conversion of unaccounted cash in SBNs held by other persons post 8 November, 2016.

Search revealed that money was transferred to related entities through the banking system and subsequently received back in cash. In one premise, bank passbooks of 34 persons were found. The Managing Director of the group company accepted that these accounts were used to generate cash and the account holders were mere name-lenders. He also accepted that several bank accounts were opened in the names of subcontractors, many of whom were relatives or friends of the Directors. These bank accounts were used to withdraw cash for inadmissible and non-business expenses. A sum of Rs. 1.96 crore in SBNs, belonging to the Group, was also seized from the residential premise of a close friend of the MD of the Group.

The group also paid nearly Rs.1.3 crore in SBN to their labour on 8th November, 2016 and booked it as labour expenses. The search led to seizure of Rs. 4 crore in cash and valuables and admission of Rs. 167 crore as undisclosed income.



Unexplained cash deposits by Professionals

During investigations, several cases of deposit of unexplained cash by professionals were detected.

Case 8: Hyderabad Based Doctor

The doctor was found to have deposited more than Rs 11 crore in SBNs after 8th November, 2016 in three bank accounts. During questioning, the individual could not provide any document to substantiate the source of the deposits, which was later admitted as undisclosed income. Prohibitory orders were initially placed on the bank accounts, which were later lifted and a sum of Rs.7.50 Crores were seized.

Unexplained cash deposits by Government Employee

Demonetisation also forced Government employees to deposit unaccounted cash in the bank accounts

Case 9: Government Employee in Bhubaneswar

Government employee was searched on the basis of information on unexplained cash deposits into the bank accounts maintained with various banks in own name as well as in the name of his family members. Investigations also revealed that his wife, a homemaker with no ascertainable sources of income, had purchased land in Bhubaneswar by making cash payment of Rs. 53 lakhs, the sources of which could not be explained. A total cash of Rs 2.28 crores has been seized in this case. The matter has also been referred to the State Vigilance Department.



Irregularities in cooperative banks and societies

Several instances of cooperative banks and credit societies allowing its financial infrastructure for laundering of unaccounted cash were found by the Income-tax Department.

Case 10: Cooperative Bank at Alwar

Survey was conducted in the case based on a reference by the police on seizure of cash of more than Rs 1.3 crore from a vehicle carrying 3 directors of the bank. On investigations, it was found that the bank was used for conversion of personal unaccounted cash of Rs. 2 crore by the Chairman and his family. New currency notes were brought from the chest of SBI and SBBJ in the name of the cooperative bank and replaced illegally.

It was also found that the directors had cheated the Bank of crore of rupees by fraudulently obtaining loans in the names of around 90 persons, whose identities are doubtful. Discrepancies in the cash book were also found. The Registrar of Cooperatives is also conducting investigations into the transactions of the bank for financial fraud based on the reference made by the Department.

Case 11: Cooperative Bank at Delhi

Search was conducted on the head office and branches of a Cooperative Bank at Delhi. The bank used demonetisation as an opportunity to earn illegal commissions for handling unexplained cash. The Chairman and his associates systematically opened benami and fraudulent accounts to launder cash for beneficiaries. More than 1200 new accounts were opened and 600 dormant accounts were made active post 8 November, 2016 in the name of third persons or name lenders or on the basis of fake IDs without KYC documents.

A total of more than Rs.120 crore was deposited in the Bank by 26 December, most of which were routed back to the beneficiaries. Preliminary verification in more than 2500 accounts with cash deposits above Rs. 1 lakh and available balance above Rs. 1 lakh has been done. Eleven Benami accounts have been identified for action under Benami Transactions (Prohibition) Act, 1988 (as amended by Benami Transactions (Prohibition) Amendment Act, 2016). Details of the case have also been shared with the CBI, the ED and the Registrar of Societies.



Unexplained cash deposits in name of employees

Various instances were found where unexplained cash was deposited in the accounts of employees to avoid detection and reporting.

Case 12: Amritsar based Company

During survey, it was found that the entity had deposited Rs. 2.5 cr. in about 700 accounts of his employees. The AGM Finance of the company admitted under oath to have deposited Rs. 2.1 crore of old currency in 780 bank accounts of the workers of the Factory without their consent or knowledge. The cash so deposited was later withdrawn from the bank using the withdrawal slips already in custody of HR staff of the company. The actual bank account holders were not aware that their accounts were being used for deposit of the cash of the company. The case has been referred to the Enforcement Directorate and the Initiating officer under the Benami Act.

Case 13: Chennai based Trust

Search operation was conducted on two trusts in Chennai based on intelligence that Chairman of the Trusts had been distributing unaccounted money in SBNs to their employees for purpose of conversion to new currency. Investigations revealed that the Trusts had planned to convert Rs. 8.18 crore of unaccounted income held in cash through its 650 employees by depositing cash in the employees' bank accounts in sums less than Rs. 50,000/-. During interrogation, the Chairman admitted that the unaccounted cash belonging to the Trusts was kept in the lockers, which was distributed to the employees after the announcement banning the old Rs. 500 and Rs. 1000 notes was made, in order to convert them into new currencies. The money represented unaccounted anonymous donations to the Trust.



Cash deposits through Shell companies

Shell companies and associated entry operators came into sharp focus due to their actions in helping entities with unaccounted cash to convert into legal tenders.

Case 14: Kolkata based Entry Operator

The case was identified for search action on the basis of data on entry Operators. Search revealed that post 8th November, 2016 the entry operator had provided entries of Rs. 103 crore to more than 120 beneficiaries, most of which were Delhi based. Entries were provided through 198 bank accounts linked to shell companies through RTGS and cheques. The Department has prepared the cash trail of Rs. 103 crore for further action.

Case 15: Shell Company at Delhi

Investigations were initiated on the basis of information from the police following interception of a vehicle carrying cash of Rs. 3.7 crore in old currency. The carrier confessed to have deposited nearly 35 crore of cash in old denomination note in the bank since 11.11.2016. The bank accounts were opened in the name of paper companies. Cash was collected from various parties, deposited in Bank account of one such fake company, then transferred through RTGS from one company to another company's bank account and after three- four layering, were finally deposited in the account of original owner. All these accounts were operated by a single person. This was done with active involvement of the Branch Manager and the Operation Manager in lieu of commission at the rate of 1% on the sums deposited. In this case deposits were made in the names of 3 paper companies.

The bulk cash deposit was accepted by the bank based on declarations on respective letter heads of the Proprietorship Firms, conveying that the respective cash deposits were out of the cash sales. Several anomalies were found in such declarations including declarations of separate concerns written on common letter heads in similar font, style, type of paper. The signatures appeared to have been put by same person. The declarations did not contain reference numbers or PAN details. The deposits were made on one particular day after 6:30 pm i.e. after closure of business hours. These bank accounts had no cash deposits before 8th November, 2016. The Enforcement Directorate and the CBI are also taking action in this case on a reference made by the Income-tax Department.



Abuse of Exemptions provided for North Eastern states

The tribals of five north-eastern states - Tripura, Manipur, Mizoram, Nagaland and Arunachal Pradesh are exempted from tax under Section 10 (26) of the Income Tax Act, 1961. Instances were found where the exemption was abused to deposit unaccounted cash.

Case 16: Dimapur case

Information regarding transport of large quantity of cash in a private plane to Dimapur airport was received by the department. The cash was dropped at Dimapur and the parties flew back by the aircraft to Delhi, where they were intercepted by the Air Intelligence Unit, Delhi. During subsequent questioning, the person belonging to Nagaland stated on oath that after the announcement of demonetisation on 08.11.2016, he had an arrangement with his friend to transport cash from Delhi to Dimapur. The understanding reached was that he would receive the cash in Dimapur, deposit the same in his bank account in Dimapur and return it via RTGS or in cash at a later date. The beneficiary, in this case, has admitted that Rs. 8.5 crore was transported from Hisar to Dimapur on two occasions. He has admitted it to be his undisclosed income.



Annexure B – High Risk Issues flagged during Response Assessment

Cash claimed to be out of cash sales to unidentifiable persons

A large number of taxpayers claimed their cash deposits to be out of Cash Sales to unidentified Persons (CSUP). High risk cases were identified as under:

- **Taxpayer segment analysis** identified taxpayers which have claim excessive cash sales but did not show any business income in their earlier return of Income filed with ITD
- **Taxpayer profile analysis** identified taxpayers which have claim excessive cash sales as compared to the turnover shown in the last return filed by the taxpayer.
- **Business segment analysis** identified taxpayers which have claim excessive cash sales as compared to the business segment (i.e. nature and size of business).

High risk issues under this category are as follows:

High value cash deposit claimed to be out of cash sales to unidentifiable persons and no return has been filed since AY 2014-15 (HR1A)

Description	The issue is flagged in cases where no return of income has been filed by the taxpayer since AY 2014-15 and the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of cash sales to unidentifiable persons.
Remarks	The taxpayer may provide details (preferably PAN) of the party to whom sales has been made or provide further explanation by revising the response.

High value cash deposit claimed to be out of cash sales to unidentifiable persons and no business has been shown in the last return filed (HR1B)

Description	The issue is flagged in cases where no business income has been shown by the taxpayer in last return of income and the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of cash sales to unidentifiable persons.
Remarks	The taxpayer may provide details (preferably PAN) of the party to whom sales has been made or provide further explanation by revising the response.



High value cash deposit claimed to be out of cash sales to unidentifiable persons and no turnover has been shown in the last return filed (HR1C)

Description	The issue is flagged in cases where nil turnover has been reported by the taxpayer in last return of income and the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of cash sales to unidentifiable persons.
Remarks	The taxpayer may provide details (preferably PAN) of the party to whom sales has been made or provide further explanation by revising the response.

High value cash deposit claimed to be out of cash sales to unidentifiable persons is very high as compared to the turnover shown in the earlier return and other cases engaged in the similar business (HR1D)

Description	The issue is flagged in cases where the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of cash sales to unidentifiable persons(CSUP), and the value of CSUP is relatively higher when compared with the turnover of taxpayer as shown in his last return of income and is also higher than the segment cut off for other cases in similar business segment.
Remarks	The taxpayer may provide details (preferably PAN) of the party to whom sales has been made or provide further explanation by revising the response.

High value cash deposit claimed to be out of cash sales to unidentifiable persons is very high as compared to other cases engaged in the similar business (HR1E)

Description	The issue is flagged in cases where the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of cash sales to unidentifiable persons(CSUP), and the value of CSUP is higher than the segment cut off for other cases in similar business segment.
Remarks	The taxpayer may provide details (preferably PAN) of the party to whom sales has been made or provide further explanation by revising the response.



High value cash deposit claimed to be out of cash sales to unidentifiable persons is very high as compared to the turnover shown in the earlier return (HR1F)

Description	The issue is flagged in cases where the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of cash sales to unidentifiable persons(CSUP), and the value of CSUP is relatively higher when compared with the turnover of taxpayer as shown in his last return of income.
Remarks	The taxpayer may provide details (preferably PAN) of the party to whom sales has been made or provide further explanation by revising the response.

Cash claimed to be received from unidentifiable persons (Other than cash sales)

A large number of taxpayers had claimed that the deposited cash was received from other person in the form of loan, loan repayment, gift, donation and other cash receipt. High risk issues under this category are as follows:

High value cash deposit claimed to be out of loan received from unidentifiable persons (HR2A)

Description	The issue is flagged in cases where the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of loan received from unidentifiable persons.
Remarks	The taxpayer may provide details (preferably PAN) of the person(s) who have given the loan or provide further explanation by revising the response.

High value cash deposit claimed to be out of loan repayment from unidentifiable persons (HR2B)

Description	The issue is flagged in cases where the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of loan repayment received from unidentifiable persons.
Remarks	The taxpayer may provide details (preferably PAN) of the person(s) who have paid the loan back or provide further explanation by revising the response.



High value cash deposit claimed to be out of gift received from unidentifiable persons (HR2C)

Description	The issue is flagged in cases where the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of gift received from unidentifiable persons.
Remarks	The taxpayer may provide details (preferably PAN) of the person(s) from whom the gift is received or provide further explanation by revising the response.

High value cash deposit claimed to be out of donation received from unidentifiable persons (HR2D)

Description	The issue is flagged in cases where the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of donation received from unidentifiable persons.
Remarks	The taxpayer may provide details (preferably PAN) of the person(s) who have given the donation or provide further explanation by revising the response.

High value cash deposit claimed to be out of other cash received from unidentifiable persons (HR2E)

Description	The issue is flagged in cases where the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of other cash receipts received from unidentifiable persons
Remarks	The taxpayer may provide details (preferably PAN) of the party from whom other cash is received or provide further explanation by revising the response.



Cash claimed to be received from identifiable persons (without PAN)

Under this category, those responses are assessed where the taxpayer has claimed that cash is received from identifiable persons without providing PAN. High risk issues under this category are as follows:

Cash deposit claimed to be out of cash sales to identifiable persons (without PAN) includes persons with large value transactions (HR3A)

Description	The issue is flagged in cases where the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of cash sales to identifiable persons (without PAN) which includes persons with large value cash transactions.
Remarks	The taxpayer may provide details (preferably PAN) of the party to whom sales has been made or provide further explanation by revising the response.

Cash deposit claimed to be out of loan received in cash from identifiable persons (without PAN) includes persons with large value transactions (HR3B)

Description	The issue is flagged in cases where the taxpayer has mentioned in the online response that the cash deposit in the bank account(s) during the demonetisation period is out of loan received in cash from identifiable persons (without PAN) which includes persons with large value cash transactions.
Remarks	The taxpayer may provide details (preferably PAN) of the person(s) with large loan transaction value or provide further explanation by revising the response.

Cash deposit claimed to be out of loan repayment in cash from identifiable persons (without PAN) includes persons with large value transactions (HR3C)

Description	The issue is flagged in cases where the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of loan repayment received in cash from identifiable person(s) (without PAN) which includes persons with large value cash transactions.
Remarks	The taxpayer may provide details (preferably PAN) of the person(s) with large loan repayment value or provide further explanation by revising the response.



Cash deposit claimed to be out of gift received in cash from identifiable persons (without PAN) includes persons with large value transactions (HR3D)

Description	The issue is flagged in cases where the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of gift received in cash from identifiable person(s) (without PAN) which includes persons with large value cash transactions.
Remarks	The taxpayer may provide details (preferably PAN) of the person(s) from whom large cash gifts are received or provide further explanation by revising the response.

Cash deposit claimed to be out of donation received in cash from identifiable persons (without PAN) includes persons with large value transactions (HR3E)

Description	The issue is flagged in cases where the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of donation received in cash from identifiable person(s) (without PAN) which includes persons with large value cash transactions.
Remarks	The taxpayer may provide details (preferably PAN) of the person(s) from whom large cash donations are received or provide further explanation by revising the response.

Cash deposit claimed to be out of other cash receipts from identifiable persons (without PAN) includes persons with large value transactions (HR3F)

Description	The issue is flagged in cases where the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of other cash receipts from identifiable person(s) (without PAN) which includes persons with large value cash transactions.
Remarks	The taxpayer may provide details (preferably PAN) of the person(s) with large value transactions or provide further explanation by revising the response.



Cash claimed to be out of earlier income or savings

Under this heading, those responses are assessed where the cash is claimed to be out of earlier income or savings by the taxpayer. High risk issues under this category are as follows:

Cash claimed to be out of earlier income or savings is high and no return has been filed since AY 2014-15 (HR4A)

Description	The issue is flagged in cases where no return of income has been filed by the taxpayer since AY 2014-15 and the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of earlier income or savings
Remarks	The taxpayer may provide further explanation by revising the response.

Cash claimed to be out of earlier income or savings is high and no business has been shown in the last return filed (HR4B)

Description	The issue is flagged in cases where no business income has been shown by the taxpayer in last return of income and the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of earlier income or savings
Remarks	The taxpayer may provide further explanation by revising the response.

Cash claimed to be out of earlier income or savings is high as compared to the closing cash balance as 31.3.2016 in the return (HR4C)

Description	The issue is flagged in cases where taxpayer has mentioned in the online response that the cash deposit in the bank account(s) during the demonetisation period is out of earlier income or savings which is high as compared to closing cash balance as on 31.03.2016 in the ITR
Remarks	The taxpayer may provide further explanation by revising the response.

Cash claimed to be out of earlier income or savings is high as compared to the closing cash balance in the latest return (HR4D)

Description	The issue is flagged in cases where taxpayer has mentioned in the online response that the cash deposit in the bank account(s) during the demonetisation period is out of earlier income or savings which is high as compared to closing cash balance as per latest return
Remarks	The taxpayer may provide further explanation by revising the response.



Cash claimed to be out of out of receipts exempt from tax

Many taxpayers have claimed cash to be out of receipts exempt from tax.

High value cash deposit claimed to be out of cash out of receipts exempt from tax (HR5A)

Description	The issue is flagged in cases where the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of cash receipts exempt from tax.
Remarks	The explanation requires verification.

Cash claimed to be out of cash withdrawn out of bank account

Many taxpayer have claimed cash to be withdrawn out of the bank account,

High value cash deposit claimed to be out of cash withdrawn out of bank account (HR6A)

Description	The issue is flagged in cases where the cash withdrawn out of bank account is high and the taxpayer has mentioned in the online response that cash deposit in the bank account(s) during the demonetisation period is out of cash withdrawn out of bank account(s).
Remarks	The explanation requires verification.