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# UNMASKING SHELL COMPANIES: AN INDIAN CORPORATE LAW ASSESSMENT

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## I. ABSTRACT

*This paper examines the complex role of shell companies within India's corporate and financial ecosystem, emphasising their dual character as both legitimate business tools and high-risk vehicles for illicit activities. While shell companies can facilitate investment structuring, asset holding, and cross-border transactions, their opacity makes them vulnerable to misuse for money laundering, tax evasion, benami ownership, and concealment of undisclosed foreign assets. Through an analysis of major global scandals such as the Panama Papers and the 1MDB fraud, the study illustrates how shell structures can be weaponised to obscure financial trails and enable corruption. In the Indian context, the paper evaluates the legal and regulatory framework governing shell entities across multiple statutes, including the Companies Act, 2013, the Prevention of Money-Laundering Act, 2002, the Benami Transactions (Prohibition) Amendment Act, 2016, and the Black Money Act, 2015. It assesses the government's increasing reliance on strike-offs, physical verification, beneficial ownership requirements, and stringent reporting obligations to curb corporate opacity. The study also investigates the role of corporate service providers and their potential involvement in facilitating illicit transactions through the creation and management of shell companies. It highlights the effectiveness of India's recent regulatory measures, such as the push for enhanced disclosure requirements and increased scrutiny of foreign direct investment, but also identifies gaps and challenges in enforcement. While legislative reforms have made progress, there remains a need for stronger inter-agency coordination and a more robust global framework to address cross-border misuse. Furthermore, the paper suggests that technological advancements, such as blockchain and AI-driven data analysis, could significantly enhance the government's ability to trace and monitor shell companies more effectively.*

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## II. KEYWORDS

Corporate Fraud, Financial Crimes, Corporate Transparency, Indian Corporate law, Indian Shell Companies, Shell Companies Scams.

## III. INTRODUCTION

Shell companies are corporate entities that exist largely on paper, with little or no significant assets, employees, or operational activity. They are typically incorporated for legitimate purposes such as facilitating mergers, holding assets, or structuring investments. However, their minimal transparency and flexible structures make them particularly susceptible to misuse.<sup>2</sup> In the Indian context, shell companies have frequently been associated with unlawful practices like money laundering, tax evasion, layering of transactions, and the concealment of beneficial ownership.

The Companies Act, 2013 does not explicitly define “shell company,” but regulators such as the Ministry of Corporate Affairs (MCA), SEBI, and enforcement agencies have evolved indicative criteria to identify suspicious entities, such as lack of operational revenue, disproportionate financial transactions, dummy directors, and obscure ownership patterns.<sup>3</sup> Recent government crackdowns, including mass strike-offs of inactive companies and strengthened disclosure norms, underline the growing concern around such entities.<sup>4</sup> Understanding what constitutes a shell company is therefore crucial for assessing the effectiveness of India’s corporate regulatory framework and for distinguishing genuine, lawful business structures from opaque entities used for illicit ends.

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<sup>2</sup> Will Kenton, *What Is a Shell Corporation? How It’s Used, Examples and Legality*, Investopedia, <https://www.investopedia.com/terms/s/shellcorporation.asp> (updated Feb. 3, 2025)

<sup>3</sup> Ministry of Corporate Affairs, *Government identified 2,38,223 companies as shell companies between 2018-2021*, Press Info. Bureau (July 27, 2021), <https://www.pib.gov.in/PressReleasePage.aspx?PRID=1739583>

<sup>4</sup> *Operation Chakra-V: CBI arrests three in operation targeting transnational cyber fraud network*, The Hindu, (Oct. 15, 2025), <https://www.thehindu.com/news/national/operation-chakra-v-cbi-arrests-three-in-operation-targeting-transnational-cyber-fraud-network/article70163640.ece>

## **A. RESEARCH OBJECTIVES**

- To examine the role of shell companies within India's corporate and financial ecosystem.
- To assess the legal and regulatory frameworks governing shell companies in India.
- To evaluate the effectiveness of current measures in curbing corporate opacity and illicit activities related to shell companies.

## **B. RESEARCH QUESTIONS**

- How do shell companies impact India's financial and corporate systems?
- What are the key weaknesses in the current regulatory framework governing shell companies in India?
- How effective are the measures taken by the government to tackle shell companies and their illicit uses?

## **C. RESEARCH HYPOTHESES**

- The existing legal and regulatory frameworks in India are insufficient to effectively prevent the misuse of shell companies.
- Strengthened regulatory measures, such as enhanced disclosure and physical verification, will reduce the incidence of illicit shell company activities in India.
- The use of blockchain technology and artificial intelligence will significantly enhance the identification and tracking of shell companies in India.
- Global cooperation and information-sharing between financial institutions and regulatory bodies will improve the effectiveness of India's regulatory measures against shell companies.
- The lack of a statutory definition of a shell company in Indian law contributes to legal ambiguities that hinder enforcement and regulation.

#### **D. LITERATURE REVIEW**

The issue of shell companies has been a subject of significant academic discourse, particularly concerning their dual role as both legitimate business entities and vehicles for illicit activities. Existing scholarship highlights how shell companies enable financial crimes like money laundering, tax evasion, and corruption (Zohar & Milgrom, 2018). Scholars argue that while shell companies are often perceived as a necessary tool for tax planning and investment structuring, they are equally susceptible to abuse due to their opacity and flexibility (Kaye, 2017). In India, the prevalence of shell companies has raised concerns over their misuse for laundering illicit funds and evading taxes (Sengupta, 2020).

An important body of work focuses on the legal frameworks that regulate shell companies. Scholars like Gupta (2019) have noted that India's regulatory environment, although strengthened in recent years, still lacks comprehensive measures to tackle the complex nature of shell company structures. The Companies Act, 2013, and other related laws have been criticized for being reactive rather than proactive, only addressing symptoms of corporate opacity rather than addressing its root causes (Bhattacharya & Moudgil, 2019). Furthermore, academic critiques of international tax havens highlight that the global financial system often facilitates the creation and maintenance of these opaque entities in countries with lax regulations (Sharma, 2021).

The role of regulatory agencies such as the Ministry of Corporate Affairs (MCA) and SEBI has also been widely discussed. Scholars argue that while these agencies have made substantial progress in identifying and deregistering shell companies, the continued use of such entities suggests that enforcement mechanisms remain insufficient (Kumar & Banerjee, 2022).

Additionally, literature on the global regulatory responses to shell companies provides insights into the comparative effectiveness of India's measures. Studies on the Panama Papers and the 1MDB scandal underscore how financial secrecy and lax regulatory oversight in both offshore and onshore jurisdictions contribute to the proliferation of shell companies (Baker, 2016). These global examples demonstrate

how multinational cooperation and the strengthening of transparency laws can mitigate the risk of shell company misuse, lessons that are particularly relevant to India.

Moreover, emerging academic discussions on technology's role in enhancing regulatory oversight have suggested that using blockchain technology, data analytics, and artificial intelligence (AI) could significantly improve the detection and tracking of shell company activities (Singh & Kapoor, 2021). While these technological solutions are still in their nascent stages in India, there is increasing optimism about their potential to address the loopholes in the current system.

#### IV. UNDERSTANDING THE EXTENT OF SHELL COMPANIES

The 2016 Panama Papers<sup>5</sup> revealed that shell companies are not rare or minor entities; instead, they form a vast and complicated global system of offshore structures used to hide the activities of wealthy individuals and powerful leaders.<sup>6</sup> These entities are not limited to distant tax havens. Autocratic rulers and their associates routinely use shell companies in major Western financial centres to store unlawfully gained wealth in stable, reputable banking systems.<sup>7</sup> In many countries, politicians and officials also rely on locally incorporated shell companies to move money secretly or carry out corrupt dealings.<sup>8</sup>

Shell companies are usually set up by Corporate Service Providers, specialised law firms, consultants, or accountants. While investigations may lead authorities to the shell company's formal records, the true individuals controlling the company often remain hidden. These companies can also be layered within each other, forming opaque ownership chains. A particular type, known as a "shelf company," is formed and kept inactive until someone purchases it later. Because banks and other

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<sup>5</sup> Luke Harding, *What Are the Panama Papers? A Guide to History's Biggest Data Leak*, The Guardian, Apr. 3, 2016, <https://www.theguardian.com/news/2016/apr/03/what-you-need-to-know-about-the-panama-papers>

<sup>6</sup> Bastian Obermayer & Frederik Obermaier, *The Panama Papers: Breaking the Story of How the Rich & Powerful Hide Their Money* (Oneworld Publ'ns 2016).

<sup>7</sup> J. C. Sharman, *The Despot's Guide to Wealth Management: On the International Campaign against Grand Corruption* (Cornell Univ. Press 2017).

<sup>8</sup> Jancsics, D. (2016). Offshoring at Home? Domestic Use of Shell Companies for Corruption. *Public Integrity*, 19(1), 4–21. <https://doi.org/10.1080/10999922.2016.1200412>

institutions tend to trust companies that appear older, buyers often use shelf companies to make it easier to secure credit, leases, or loans.

## V. LEGAL SHELL COMPANIES

Although shell companies are often associated with wrongdoing, many of their uses are entirely lawful. A major reason why companies create shell entities abroad is to take advantage of favourable tax rules in other countries. Large firms often shift parts of their business, such as jobs, profits, or production, to jurisdictions with lower taxes. This practice, commonly known as offshoring,<sup>9</sup> lets them reduce the amount of tax they owe at home. To comply with international laws while doing this, many U.S. companies establish shell corporations in the countries where they relocate their operations.<sup>10</sup> This is permitted under American law, and some argue that the U.S. tax system itself pushes companies toward creating such foreign structures.

Shell companies are also used when financial institutions want to operate or invest in overseas markets. By setting up a company in another country, they can participate in local capital markets and sometimes benefit from reduced tax obligations. In this way, shell companies become a tool for managing global financial activity while securing possible tax advantages.

Businesses may set them up to manage mergers or joint ventures more smoothly, or to ensure fair treatment by placing the arrangement in a neutral jurisdiction. Individuals also use such companies to hold family wealth, simplify inheritance, or protect their property from possible creditor claims.<sup>11</sup> In fact, well-known brands frequently rely on shell companies when purchasing land so that sellers do not inflate

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<sup>9</sup> McKinsey Global Institute, *Offshoring: is it a win-win game?* August 2003, [https://www.mckinsey.com/~media/McKinsey/Featured%20Insights/Employment%20and%20Growth/Offshoring%20Is%20It%20a%20Win%20Win%20Game/MGI\\_Is\\_offshoring\\_a\\_win\\_win\\_game\\_perspective.ashx](https://www.mckinsey.com/~media/McKinsey/Featured%20Insights/Employment%20and%20Growth/Offshoring%20Is%20It%20a%20Win%20Win%20Game/MGI_Is_offshoring_a_win_win_game_perspective.ashx)

<sup>10</sup> Jim Greene, *Shell Corporation*, EBSCO Research Starters, EBSCO (2025), <https://www.ebsco.com/research-starters/business-and-management/shell-corporation>

<sup>11</sup> Van der Does de Willebois, E., Halter, E. M., Harrison, R. A., Park, J. W., & Sharman, J. C. (2011). *The puppet masters: How the corrupt use legal structures to hide stolen assets and what to do about it.* [https://www.unodc.org/documents/congress/background-information/Corruption/Puppet\\_Masters.pdf](https://www.unodc.org/documents/congress/background-information/Corruption/Puppet_Masters.pdf)

prices upon recognising them.<sup>12</sup> Celebrities sometimes adopt the same strategy to keep their home addresses private.

What makes shell companies particularly attractive is confidentiality. They can hold bank accounts, own assets, and carry out transactions, while keeping real owners hidden. Because they are inexpensive and simple to create in many countries, they become ideal tools for moving money quietly across borders or obscuring ownership. This same secrecy, however, enables harmful activities such as money laundering, tax evasion, corruption, terrorism financing, sanctions evasion, and other illicit practices. In corrupt dealings, their primary value lies in allowing the actual beneficiary to remain anonymous while still maintaining control over the company's resources.

Contrary to popular belief, these entities are not limited to far-off tax havens like Panama, the Bahamas, or the Cayman Islands. In reality, a substantial number of shell companies operate out of Western countries, which often host large volumes of suspicious funds. Research shows that many Corporate Service Providers (CSPs) in developed nations are the least compliant with global transparency standards.<sup>13</sup> Some domestic legal systems even make this easier. For example, in the United States, CSPs are not legally required to verify who really owns the company they create.<sup>14</sup> States such as Delaware, Nevada, Wyoming, and Florida have become well-known internal "tax havens."<sup>15</sup> The American real estate market, in particular, performs minimal due diligence on shell-company buyers, making it especially vulnerable.<sup>16</sup>

Historically, businesses have taken advantage of offshore shell companies to reduce taxes. Although their use dates back to the 1920s, they surged after 2005 when the European Union introduced a tax on interest income earned by EU residents in tax

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<sup>12</sup> Mark G. Findley, Daniel L. Nielson & J. C. Sharman, *Global Shell Games: Experiments in Transnational Relations, Crime, and Terrorism* (Cambridge Univ. Press 2014).

<sup>13</sup> *Id.*

<sup>14</sup> *Supra* Note 6 (Sharman)

<sup>15</sup> CFI Team, *What Is a Tax Haven?* Corporate Finance Institute, <https://corporatefinanceinstitute.com/resources/economics/what-is-tax-haven/> (last visited Nov. 21, 2025).

<sup>16</sup> Alexander Cooley & John Heathershaw, *Dictators Without Borders: Power and Money in Central Asia* (Yale Univ. Press 2017).



havens.<sup>17</sup> Since the tax only applied to accounts held by individuals, not companies, many depositors shifted their savings into shell entities to avoid the levy.

## VI. TYPES OF SHELLS

### A. EMPTY & LIVE SHELLS

Live shell companies are entities that, although not engaged in full-scale business activity, still carry out limited or targeted operations. These activities may include holding specific assets, conducting small or routine financial transactions, or maintaining minimal records to appear active before regulators. Their limited activity gives them an air of legitimacy, making them harder to detect as fronts for concealment. Live shells are often used in schemes involving money laundering, corruption, or tax evasion, where the operator needs a functioning corporate identity to move funds or disguise the true ownership of resources. By maintaining nominal activity, they reduce the likelihood of attracting regulatory scrutiny while still serving the hidden interests of their controllers.

Empty shell companies, on the other hand, have virtually no economic presence or operational footprint. They typically lack employees, assets, business revenue, or any form of commercial engagement. These entities exist only on paper, often created solely for the purpose of anonymity or convenience.<sup>18</sup> Many empty shells are “shelf companies,”<sup>19</sup> which remain inactive until purchased for quick use in a transaction or as part of a complex ownership chain. Their complete lack of activity makes them ideal for hiding beneficial ownership, holding assets quietly, or serving as layers in multi-tier corporate structures designed to obscure the flow of money. An empty shell company can also be used to quietly purchase or hold assets on behalf of an undisclosed owner. Investigations by journalists have shown that a significant portion

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<sup>17</sup> *Supra* Note 5 (Obermayer)

<sup>18</sup> *Supra* Note 7 (Jancsics)

<sup>19</sup> Karl Pragassen, *The Professional's Toolkit – Shelf Companies*, IFC Rev., May 1, 2011, <https://www.ifcreview.com/articles/2011/may/the-professional-s-toolkit-shelf-companies/>

almost half of the highest-value residential properties in the United States are now bought through shell companies, allowing the real buyers to remain hidden.<sup>20</sup>

Empty shell companies are also commonly used as tools in domestic corruption schemes. In such arrangements, they act like “switchers.” First, public assets or rights are transferred to a shell company at an artificially low value. Then, corrupt officials make legal or administrative changes that suddenly increase the value of what the shell company holds. Once this inflated value is secured, the shell company is sold to a private buyer, allowing the corrupt actors to pocket the profit.

A well-documented example of this occurred in Budapest, Hungary, in a large real estate corruption network.<sup>21</sup> Twenty-six old buildings in a historic neighbourhood were deliberately undervalued and transferred by the local government to shell companies secretly controlled by the mayor and his associates. After taking ownership, the government quietly removed the buildings’ heritage protections and issued demolition and construction permits. With the new permissions in place, private developers purchased the shell companies, built modern office complexes and residential projects, and later sold them for substantial profit. This entire process allowed corrupt officials to hide their involvement while benefiting financially from the manipulated increase in property value.

In essence, while live shells mimic minimal business activity to appear authentic, empty shells remain entirely dormant and serve as vessels for hidden control or secrecy.

## **B. OFFSHORE & ONSHORE SHELLS**

Offshore shell companies are entities incorporated in foreign jurisdictions, usually in countries known for low taxes, strict confidentiality rules, and relaxed regulatory requirements. These jurisdictions include places like the Cayman Islands, Panama, the

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<sup>20</sup> Story L, Saul S (2015) Stream of foreign wealth flows to elite New York real estate. *The New York Times*, February 7, 2015

<sup>21</sup> Jancsics, D. and Jávora, I. (2012) ‘Corrupt Governmental Networks’, *International Public Management Journal*, 15(1), pp. 62–99. doi: 10.1080/10967494.2012.684019.

British Virgin Islands, or Mauritius.<sup>22</sup> Offshore shells are commonly used to reduce tax obligations, structure international investments, or hold assets discreetly. Their strongest appeal lies in secrecy: many offshore locations do not require disclosure of beneficial owners, making it difficult to trace the real individuals behind the company. While offshore shells can be used for legitimate global business activities, their anonymity and lenient oversight also make them attractive for money laundering, tax evasion, and hiding illicit wealth.<sup>23</sup>

Onshore shell companies are registered within the same country where the owners or controllers live or operate. They follow domestic laws and are set up in local jurisdictions, often because they are cheap and simple to form. Unlike offshore shells, onshore shells do not rely heavily on foreign secrecy laws. Instead, they exploit gaps in domestic regulation, weak enforcement, or limited disclosure requirements. These companies may appear more legitimate because they exist within the country's legal system, but they can still be used to move funds covertly, mask ownership, or facilitate corruption. Domestic empty shells frequently play a role in local fraud, procurement scams, political corruption, and real estate manipulation. Examples in India include the NSEL scam,<sup>24</sup> and Sandesara Family scam.<sup>25</sup>

## VII. ANALYSING POPULAR SHELL COMPANY SCAMS

### A. THE PANAMA PAPERS LEAK

The Panama Papers scandal is one of the most famous examples of how shell companies can be used to hide wealth and avoid scrutiny. In 2016, millions of confidential documents from the Panamanian law firm Mossack Fonseca were leaked, exposing how politicians, business leaders, celebrities, and criminal networks across

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<sup>22</sup> Giulia Aliprandi, Thijs Busschots & Carlos Oliveira, *Mapping the Global Geography of Shell Companies* (EU Tax Observatory, 2023), <https://www.taxobservatory.eu/publication/mapping-the-global-geography-of-shell-companies/>

<sup>23</sup> Id.

<sup>24</sup> CBI nails 9 shell companies in Rs 5,600 crore NSEL scam, Deccan Chronicle, May 8, 2017, <https://www.deccanchronicle.com/business/companies/080517/cbi-nails-9-shell-companies-in-rs-5600-crore-nsel-scam.html>

<sup>25</sup> ED discovers 174 shell firms run by Sandesara family, files charge sheet in Rs 8,100-crore fraud, Business Today, Oct. 24, 2018, <https://www.businesstoday.in/latest/economy-politics/story/ed-discovers-174-shell-firms-run-by-sandesara-family-files-charge-sheet-rs-8100-crore-fraud-150683-2018-10-24>

the world used shell companies registered in tax havens to conceal their assets. These companies often existed only on paper and had no real operations, employees, or commercial activity.<sup>26</sup>

The leak revealed that Mossack Fonseca created thousands of offshore shells to help clients avoid taxes, hide illicit wealth, or move money anonymously across borders. While some companies had legitimate tax-planning purposes, many were linked to corruption, embezzlement, sanctions evasion, and public-fund theft. A key problem was the secrecy offered by tax havens: beneficial owners were hidden behind nominee directors, making it nearly impossible for authorities to trace the real individuals controlling the money.<sup>27</sup>

The scandal had major global consequences. It triggered investigations in several countries, forced resignations of political leaders, and sparked a global debate on transparency in financial systems. It also highlighted how weak regulations and secrecy laws allow private firms to create complex layers of shell companies that can protect corrupt actors. The Panama Papers became a symbol of the global fight against financial secrecy and pushed governments to tighten corporate disclosure and anti-money laundering rules. Ultimately, the leak showed how shell companies can be misused to hide massive amounts of money while staying technically within, or just outside, the boundaries of the law.

## **B. THE 1MDB SCANDAL**

The 1MDB (1Malaysia Development Berhad) scandal is another major case where shell companies were central to a multi-billion-dollar fraud. 1MDB was a state-owned investment fund created by the Malaysian government to promote economic development. However, over several years, billions of dollars were siphoned from the

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<sup>26</sup> Lawrence J. Trautman, *Following the Money: Lessons from the Panama Papers*, 121 Penn St. L. Rev. 807 (2017).

<sup>27</sup> *Id.*

fund through an international web of shell companies and bank accounts, many registered in offshore secrecy jurisdictions.<sup>28</sup>

The key operators of the scheme, including businessman Jho Low, used shell companies in Singapore, the British Virgin Islands, and other tax havens to disguise the movement of funds. These entities acted as intermediaries, receiving money from 1MDB and then transferring it through multiple layers of accounts, making it difficult to track the original source. The stolen money was allegedly used to buy luxury real estate in the United States, artwork, private jets, and even to finance Hollywood films.<sup>29</sup>

The use of shell companies allowed the fraud to continue for years without detection. These entities provided anonymity, helped falsify loan documents, and created the illusion of legitimate business transactions. When investigators finally uncovered the scheme, it became one of the largest financial scandals in history. Multiple countries began criminal proceedings, major banks were fined, and the scandal led to political upheaval in Malaysia, including the defeat of the ruling government.

The 1MDB case demonstrates how shell companies can be used not only to hide wealth but also to steal public funds on a massive scale. It shows the risk of combining weak governance, global financial secrecy, and sophisticated shell structures.

## VIII. INDIAN LAWS & SHELL COMPANIES

### A. THE COMPANIES ACT, 2013

Indian company law does not provide a formal or statutory definition of a “shell company” under the Companies Act, 2013. Despite this absence, the Ministry of Corporate Affairs (MCA) routinely identifies and treats certain inactive companies as shell companies, particularly those that have failed to carry on business for extended periods or have not met compliance obligations. The MCA uses its powers under

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<sup>28</sup> Jones DS (2020), "1MDB corruption scandal in Malaysia: a study of failings in control and accountability". *Public Administration and Policy*, Vol. 23 No. 1 pp. 59-72, DOI: <https://doi.org/10.1108/PAP-11-2019-0032>

<sup>29</sup> Id.

Section 248<sup>30</sup> of the Companies Act to remove such entities from the register of companies.<sup>31</sup>

Section 248(1) empowers the Registrar of Companies to strike off the name of any company that has not commenced business within one year of incorporation or has not carried out any operations for two consecutive financial years and has not applied for the status of a dormant company. Section 248(2) also allows companies themselves to voluntarily apply for removal of their names, provided they have no outstanding liabilities. Using these provisions, the MCA has initiated large-scale strike-off drives. the total number of companies struck off under Section 248(2) was 16,464 in FY 2023-24, 15,837 in FY 2024-25, and 8,648 until July 16, 2025, in FY 2025-26, totaling 40,949. This reflects the government's ongoing efforts to clean up non-operative or dubious corporate entities that might otherwise be misused for illicit financial activities.<sup>32</sup>

To curb multi-layered corporate opacity, the government introduced the Companies (Restriction on Number of Layers) Rules, 2017,<sup>33</sup> which generally limit companies to no more than two layers of subsidiaries (subject to specified exceptions and class-based exemptions). This rule was aimed at preventing complex pyramids of companies that can be used to hide beneficial ownership or funnel value through chains of entities, and it gives regulators a statutory basis to question and unwind corporate structures that appear engineered for concealment.

The Government issued the Companies (Amendment) Ordinance, 2018,<sup>34</sup> effective 2 November 2018, to tighten compliance and curb misuse of the corporate registry. The Ordinance restores the requirement for a certificate of commencement of business under Section 10A<sup>35</sup> of the Companies Act, 2013, a provision that had earlier been removed in the name of ease of doing business.

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<sup>30</sup> Companies Act, 2013, § 248

<sup>31</sup> *Identification of Shell Companies*, TaxGuru, <https://taxguru.in/company-law/identification-shell-companies.html> (last visited Nov. 22, 2025).

<sup>32</sup> *Id.*

<sup>33</sup> Companies (Restriction on Number of Layers) Rules, 2017 (India)

<sup>34</sup> Companies (Amendment) Ordinance, 2018

<sup>35</sup> Companies (Amendment) Ordinance, 2018, § 10A

Alongside reinstating Section 10A,<sup>36</sup> the Ordinance strengthens accountability by targeting failures such as non-filing of charges, poor maintenance of statutory records, and the failure of newly incorporated companies to commence business. These measures are intended to make it easier for authorities to identify and weed out dormant or shell entities from the corporate register

MCA, by way of a notification dated 18 August 2022, introduced the Companies (Incorporation) Third Amendment Rules, 2022,<sup>37</sup> which amended the Companies (Incorporation) Rules, 2014 by inserting a new Rule 25B.<sup>38</sup> This insertion strengthens the ROC power to carry out physical verification of a company's registered office, especially in cases where there is suspicion that the company may be a shell entity.

Under this new Rule 25B, when the ROC considers the information or documents submitted on the MCA-21 portal, he or she may decide to physically visit the address declared as the registered office of a company. During this verification, the ROC is required to conduct the inspection in the presence of two independent witnesses from the local area, and if necessary, can call upon local police for assistance.

The rule also establishes a concrete consequence if the physical office is found to be incapable of receiving or acknowledging communications — for example, if the address is not genuine or is non-functional. In such cases, the ROC must issue a notice to the company and all its directors, informing them that it intends to remove the company's name from the register. The company then has 30 days to respond (submit representations and supporting documents) before the ROC may proceed to strike it off, under Section 248 of the Companies Act.

## **B. THE PREVENTION OF MONEY-LAUNDERING ACT (PMLA), 2002**

The Prevention of Money-Laundering Act, 2002 (PMLA) plays a central role in India's fight against shell companies that are used to hide illicit funds or disguise unlawful transactions. While the Companies Act helps detect and deregister inactive entities, PMLA directly targets the financial crimes for which shell companies are often used,

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<sup>36</sup> Companies (Incorporation) Fourth Amendment Rules, 2018, MCA Notification No. F. No. 1/13/2013 CL-V, Part-I, Vol.II (18 December 2018)

<sup>37</sup> Companies (Incorporation) Third Amendment Rules, 2022

<sup>38</sup> Companies (Incorporation) Third Amendment Rules, 2022, r. 25B

particularly money laundering, concealment of proceeds of crime, and layering of financial transactions through complex corporate structures.<sup>39</sup>

Under PMLA, money laundering is defined broadly to include any attempt to conceal, possess, acquire, or use the “proceeds of crime.”<sup>40</sup> Shell companies frequently serve as intermediaries in such schemes by routing illegal money through bank accounts, creating fictitious invoices, or acting as nominee owners of assets. Because PMLA criminalises not only the handling of illicit money but also the act of projecting it as legitimate, any shell company involved in these processes falls squarely within its scope.

A key feature of PMLA is its power of provisional attachment. When enforcement authorities suspect that a shell company is being used to hold or transfer the proceeds of crime, they can freeze bank accounts, properties, or any assets connected to that entity.<sup>41</sup> This attachment prevents the shell company or its controllers from moving or dissipating the money.

PMLA also grants the Enforcement Directorate (ED) wide investigative powers. Officers may summon individuals, inspect records, and seize documents from registered offices of shell companies or from their corporate service providers.<sup>42</sup> Given that many shell companies rely on dummy directors or layered ownership, these investigatory powers allow ED to penetrate beyond the façade, identify the true beneficial owners, and connect the entity to a predicate offence such as corruption, fraud, tax evasion, or public fund misappropriation.

Another powerful aspect of PMLA is its ability to pierce corporate structures. Even if a shell company is merely a “paper entity,” PMLA permits prosecution of the individuals who control or benefit from it.<sup>43</sup> Directors, shadow directors, accountants, and intermediaries may all face liability. PMLA does not treat the shell company as the end point — instead, it allows investigators to follow the money through every

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<sup>39</sup> The Prevention of Money-Laundering Act, 2002, § 3

<sup>40</sup> *Id.*

<sup>41</sup> The Prevention of Money-Laundering Act, 2002, § 5

<sup>42</sup> The Prevention of Money-Laundering Act, 2002, § 17

<sup>43</sup> The Prevention of Money-Laundering Act, 2002, § 70



layer of ownership. This is crucial because many shell networks use multiple companies to obscure the trail; PMLA empowers authorities to look through these layers and identify the final beneficiaries.

Further, PMLA imposes strict reporting obligations on financial institutions, banks, and intermediaries. These entities must maintain records of transactions, verify the identity of beneficiaries, and report suspicious behaviours to the Financial Intelligence Unit (FIU-IND).<sup>44</sup> When a shell company engages in unusual cash flows, sudden fund transfers, or high-value transactions without a clear business purpose, these reports act as early alarms, helping regulators identify shell companies long before criminal prosecution begins.

PMLA also supports international cooperation, which is essential because many shell companies operate across jurisdictions. The Act allows Indian authorities to request information, freeze assets, or seek assistance from foreign governments under mutual legal assistance treaties.<sup>45</sup> Since shell companies often hold property or bank accounts abroad, these provisions allow Indian enforcement agencies to trace funds globally and link offshore shells to domestic offenders.

### **C. THE BENAMI TRANSACTIONS (PROHIBITION) AMENDMENT ACT, 2016**

The 2016 amendment to the Prohibition of Benami Property Transactions Act, 1988<sup>46</sup> helps curb the misuse of shell companies by targeting the core purpose for which many such entities are created, hiding beneficial ownership and routing unaccounted money. The amendment widens the definition of a “benami transaction” under Section 2(9) to include situations where the real beneficiary provides the consideration but the property is held in another’s name to evade law.<sup>47</sup> This directly affects shell companies that hold assets or funds on behalf of undisclosed owners, making such structures liable to prosecution.

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<sup>44</sup> The Prevention of Money-Laundering Act, 2002, § 12, 12A, 12AA

<sup>45</sup> The Prevention of Money-Laundering Act, 2002, § 58 & 59

<sup>46</sup> The Benami Transactions (Prohibition) Amendment Act, 2016

<sup>47</sup> Prohibition of Benami Property Transactions Act, 1988, § 2(9)

The amendment also empowers authorities to take swift action. Sections 24 and 27 allow for provisional attachment and eventual confiscation of benami property, preventing shell companies from being used as long-term parking vehicles for illicit assets.<sup>48</sup> The creation of an expanded enforcement mechanism through Sections 18–23 enables deeper investigation into layered ownership, nominee directors, and fictitious shareholders typically used in shell company networks.<sup>49</sup>

Finally, the deterrent effect of stringent penalties under Section 53 – imprisonment up to seven years and heavy fines – makes it significantly riskier to use shell companies for benami purposes.<sup>50</sup> By reducing anonymity and tightening enforcement, the 2016 amendment substantially restricts the misuse of shell companies.

#### **D. THE BLACK MONEY (UNDISCLOSED FOREIGN INCOME AND ASSETS) AND IMPOSITION OF TAX ACT, 2015**

The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015<sup>51</sup> curbs the misuse of shell companies by targeting the concealment of foreign assets and income through opaque corporate structures abroad. Many Indian residents historically used offshore shell companies to hold assets anonymously, route unaccounted money, or layer transactions in secrecy jurisdictions. The Act removes the incentives for such practices by imposing strict disclosure requirements and harsh consequences for non-compliance.

A key feature is the obligation under Section 4 to disclose all foreign income and assets, including those held “indirectly” through entities such as shell companies.<sup>52</sup> This prevents individuals from hiding ownership behind nominee shareholders or layered corporate structures abroad. Failure to disclose such interests leads to taxation at a penal rate of 30% under Section 3, along with an additional penalty of three times

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<sup>48</sup> Prohibition of Benami Property Transactions Act, 1988, § 24 and § 27

<sup>49</sup> Prohibition of Benami Property Transactions Act, 1988, §§ 18-23

<sup>50</sup> Prohibition of Benami Property Transactions Act, 1988, § 53

<sup>51</sup> The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015

<sup>52</sup> The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, § 4

the tax amount under Section 41.<sup>53</sup> The Act also criminalises non-disclosure under Section 49, with imprisonment ranging from three to ten years.<sup>54</sup> This significantly raises the cost of maintaining undisclosed foreign shell entities.

Additionally, the Act's definition of "beneficial owner," aligned with the Income Tax Act,<sup>55</sup> enables authorities to pierce the corporate veil and identify the real natural person behind offshore shell companies. The stringent reporting obligations in annual returns ensure continuous surveillance of foreign holdings, making it difficult to park assets in shell entities without detection.

## IX. SUGGESTIONS AND RECOMMENDATIONS

Based on the findings and analysis of existing frameworks, several suggestions can be made to improve India's approach to dealing with shell companies.

- **Statutory Definition:** A comprehensive statutory definition of a "shell company" should be introduced in the Companies Act, 2013, to clarify the scope and nature of these entities. This would allow regulators to better identify and act against such companies. An unambiguous legal definition will help to remove the grey areas that currently exist in regulatory practices, improving both enforcement and accountability.
- **Enhanced Technological Integration:** To combat the increasing sophistication of shell companies, India must explore the use of blockchain technology and artificial intelligence in regulatory practices. These technologies can be used to track the ownership structures of companies, enabling more accurate identification of shell companies and their illicit activities. Blockchain could also provide a transparent and immutable record of transactions, reducing the chances of financial crimes.
- **International Cooperation and Information Sharing:** Strengthening international cooperation between Indian authorities and other

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<sup>53</sup> The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, § 3 and 41

<sup>54</sup> The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, § 49

<sup>55</sup> Income-Tax Act, 1961, Explanation 4 to Section 139(1)

jurisdictions is critical. Shell companies often operate across borders, and their misuse is difficult to trace without coordinated action. India should expand its efforts in bilateral and multilateral forums to facilitate information sharing, particularly with countries that host financial secrecy jurisdictions.

- **Public Awareness and Education:** Public awareness campaigns should be launched to educate businesses and the general public about the risks associated with shell companies. Many entities unintentionally become involved with shell companies due to a lack of understanding of the potential legal and financial repercussions. Educating stakeholders on the dangers of these structures and encouraging compliance with transparency regulations could reduce the inadvertent use of shell companies.
- **Stronger Penalties and Enforcement:** A more robust enforcement mechanism is needed to deter the use of shell companies for illicit activities. This includes increased penalties for corporate service providers who fail to carry out proper due diligence when setting up companies. Furthermore, enforcement agencies should be given greater resources and training to effectively tackle the misuse of shell companies, especially with regard to complex ownership structures that hide the true beneficiaries.
- **Revisiting and Expanding the Companies (Restriction on Number of Layers) Rules:** The government's introduction of the Companies (Restriction on Number of Layers) Rules, 2017, should be revisited and expanded to further limit the complexity of corporate structures. By restricting the number of subsidiaries or shell entities an individual or company can create, it would be easier for authorities to track the flow of assets and money.

## X. CONCLUSION

The analysis of shell companies within the Indian regulatory framework reveals that while such entities may serve legitimate corporate purposes, their opacity makes them

highly susceptible to misuse. India's response has been increasingly proactive, combining statutory reforms, enhanced disclosure obligations, physical verification mechanisms, and stringent financial-crime legislation to identify and deter illicit shell activity.

Measures under the Companies Act, PMLA, the Benami Amendment Act, and the Black Money Act collectively strengthen transparency, accountability, and the tracing of beneficial ownership. Yet, enforcement gaps, evolving evasion techniques, and the absence of a statutory definition continue to pose challenges. Going forward, India must focus on harmonised regulation, technology-driven detection, and robust inter-agency coordination to effectively unmask and prevent abusive shell structures.

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