



Government Plans to Geo-Tag Firms to Check Frauds

As per the newly proposed norms, Companies will have to geotag their registered offices in the annual statutory filings of documents with the Registrar of Companies (RoC).

What is geo-tagging?

- Geo-tagging means providing data on the exact location of the office. It will allow the online return filing system to alert government officials wherever it detects far too many companies registered in the same premises.

Why geo-tagging?

- The move is a part of government actions against shell companies.
- The coordinates of the registered premises will act as a key input for mining data in the Ministry Of Commerce and Industry's IT infrastructure, called MCA21, to identify companies with a common address, common contact numbers, common directors and sudden and unexpected changes in revenue, etc.
- It will also help the government to identify companies who give vacant plots as their registered office address. A technique often employed by shell companies.
- With this move, the ministry seeks to prevent abuse of the corporate structure by companies that inflate costs by issuing fake invoices and laundering unaccounted wealth in the form of loans or equity through bogus transactions.
- The move is in line with the recommendation of Justice M.B. Shah panel, which had recommended proactive mining of the Registrar of Companies (RoC) database to weed out shell companies. The SIT found that these shell companies were being used to launder black money.

Concerns

- India has a booming start-up culture sometimes start-ups also work in clusters. Multiple firms having a common address does not always mean fraud. Having a common address is a practice among professional services companies such as law firms and audit firms to work from a large, common infrastructure.

What is a shell company?

- An incorporated company with no significant operations, established for the sole purpose of holding or transferring funds, often for money laundering purposes. Shell companies have only a name, address, and bank accounts and are made to look like real businesses by maintaining fake financial records.
- A shell company is per se not illegal as long as it is not used for an illegal act, such as manipulation of share prices, evading taxes, or financial fraud.
- The term "shell company" is not defined under the Companies Act, 2013.

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