

## MONEY LAUNDERING THROUGH REAL ESTATE MARKET

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### Abstract

Money laundering is the process of making dirty money look clean. It erodes financial institutions and weakens the financial sectors role in economic growth. It has the habit of facilitating corruption, crime and other illegal activities at the expense of countries development and can increase the risk of macroeconomic instability. The negative economic effects of money laundering on economic development are difficult to quantify. Real estate has been the preferred choice of criminals for masking illegally gained funds and manipulations, also when unaccounted funds (black money) are funneled into real estate by individuals and institutions, then it becomes impossible for an ordinary individual to buy a piece of land.

**Key words:** Money Laundering, Black Money, Terrorist Financing, Real Estate, Property.

### I. INTRODUCTION

Real Estate<sup>(1)</sup> industry is probably the oldest industry in the world and it is proved to be the only business which has never lost its glamour since the ancient times. Until 19<sup>th</sup> century the concept of real estate has not undergone much change but in last two decades it has undergone major changes which have made this industry vulnerable towards Money Laundering that benefits anti social elements.

Various reports produced by the Financial Action Task Force (FATF) and International Monetary Fund (IMF) over the last few years have made reference to the fact that the real-estate sector may be one of the vehicles used by criminal organizations to launder their illicitly obtained money. Due to the international nature of the real-estate market, it is extremely difficult to identify real estate transactions associated with money laundering, terrorist financing and tax fraud. Several countries are taking extreme measures to combat money laundering and terrorist financing as it is a serious threat to their economy and reputation.

#### 1.1 Money Laundering

The International Monetary Fund estimated that the aggregate size of money laundering is between 2% and 5% of the world's Gross Domestic Product (GDP) ranged between USD 590 billion and USD 1.5 trillion.

One of the effective ways to understand how the real estate sector is abused for money laundering is to examine with a simple example. A money launderer

would like to buy a property with 25% legal funds paid through bank account and 75% illegal funds paid to seller in the form of cash. After a stipulated period of time the launderer sells the property with the same amount or some amount of profit. During the time of selling money launderer would request the buyer to pay the property value through bank account, cheque or demand draft so that all his money gets legitimate appearance.

Criminals generate substantial profits and invest the funds without drawing the attention of legal persons. Criminals do this by disguising the sources, changing the form, or moving the money to a place where it is less likely to attract attention. In real estate transactions both legitimate and illegitimate funds may be funneled which leads to blending of funds.

#### 1.2 Rise in Real Estate Demand

In the last two decades, market value of the property has started to change on a weekly / monthly basis and some times daily especially in the peak commercial and residential areas. Even though Government hiked the guide line value by a little margin with the intension of helping poor and middle class people to buy a piece of land, sellers and their agents have started hiking the value of the property with the reasons that are not connected to the property.

The demand for residential properties has skyrocketed due to the increase in urbanization & working population. Individual's aspiration levels have gone miles ahead. Processing of loans by Banks has

become simple and quick with adjustable interest rates. Office and commercial space prices have also increased considerably as India is considered to be the most attractive destination for IT & BPO services.

## II. MONEY LAUNDERING THROUGH REAL ESTATE

The purpose of this research is to understand the money laundering happening through real estate through applied research methodology.

**Table 1. People participated in Interview**

	No of People Interviewed
Salaried Workers (form 16)	270
Salaried Workers (without form 16)	216
Business people (paying tax)	234
Business people (paying no tax)	252

*Buyers and Sellers Point on their income and expenditure:*

91% of the salaried workers (with form 16) feel their income and expenditures on real estate have to be done through accounted funds and they are interested to use Financial Institutions for the mode of payment as their earnings are audited for tax purpose.

65% of the salaried workers (paying tax without form 16) are willing to use Financial Institutions for the mode of payment for the safety purpose and others are ready to pay in the form of cash.

67% of the business people (paying tax) are willing to use Financial Institutions for the mode of payment and others are ready to pay / receive funds in the form of cash as they have both accounted and unaccounted funds.

27% of the business people (paying no tax) are willing to use Financial Institutions for the mode of payment and most of them are ready to pay / receive funds in the form of cash as they have unaccounted funds.

**Table 2. Paying mode in real estate transaction**

	Accounted funds	Unaccounted funds
Salaried Workers (form 16)	91%	9%
Salaried Workers (without form 16)	65%	35%
Business people (paying tax)	67%	33%
Business people (paying no tax)	27%	73%

From the research it is found that most of the people who are paying tax want to buy / sell real estate with accounted funds however people who are not paying tax are ready to pay through cash which are unaccounted. From the research it is also understood that, it has become difficult for the normal people to monitor and explain the variations in the property prices due to the lack of un-reliable information. Real estate markets are geographically segmented and numerous factors shape the price of the market.

*Eagle Eye View – Money laundering through real estate:*

People are investing their unaccounted funds (i.e Black money) in real estate through cash, along with them money launderers who gained money through illegal sources are also investing their funds in real estate which is a tough task for Government to identify and control. If this situation continues then funds gained through illegal ways and unaccounted funds will start ruin the whole real estate world. It is also necessary to control the Benami<sup>(3)</sup> transactions initiated by money launderers and terrorist financiers.

Normal people are expecting transparent process which will them to evaluate the reasonable price of the property with the help of domain expert<sup>(2)</sup>. They also want to break the agents monopoly found in several parts of India, selling of land with forgery documents and encroachment. Above all India wants some kind of mechanism to stop money launderers entering into real estate world with their illegal funds.

### III. CONCLUSION

Combating money laundering in real estate market is one of the biggest challenges faced by the union Government and state Government as the typologies varies from time to time and case to case. To combat money laundering channeled through real estate, Government has taken several measures to stop black money ruling the whole Real Estate Industry. It is good to suggest that all the transactions should be routed through bank account, cheque or demand draft.

By fixing a threshold limit Government will be able to verify the source of funds in all real estate transactions. Following the "money trail" can produce tremendous opportunities in terms of identification and ability to find the originators of illegal funds and organized crimes.

If the buyer / seller are unable to explain the source of fund / property then Suspicious Activity Report (SAR) has to be filed with Financial Intelligence Unit (FIU)<sup>(4)</sup>. It is very much essential to recognize the importance of due diligence, record-keeping and reporting requirements for the real estate sector.

In recent years the real estate sector in India has undergone various regulatory and legal reforms. These reforms include the following:

The Prevention of Money Laundering Act 2002 (Bill 1999) to cover Income Tax, Customs, Excise and Sales Tax; The Income Tax Act 1961, the Customs and Excise Acts 1962.

Government of India supporting the repeal of the Urban Land Ceiling Act, with nine state governments having already repealed the Act.

Rationalization of property taxes in a number of states.

The proposed computerization of land records.

Benami Transaction Prohibition Act 1988.

1. Real Estate is defined as land and buildings or structures on it. It covers residential housing, commercial offices, trading spaces such as theatres, hotels and restaurants, retail outlets, industrial buildings such as factories and government buildings. The main players in the real estate market are the landlords, developers, builders, real estate agents, tenants, buyers etc.

2. Domain experts: civil engineers, evaluators, survivors, notary etc (To understand the factors that underlie pricing in the property market are essential.)

3. Benami transactions: Transactions in false name of another person, who does not pay the consideration but merely lends his name, while the real title vests in another person who actually purchased the property and he is the beneficial owner.

4. Financial Intelligence Unit (FIU): It is a central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions. It is also responsible for coordinating and strengthening efforts of national and international intelligence, investigation and enforcement agencies in pursuing the global efforts against money laundering and related crimes.

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