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Indians Rush Frantically to Launder Their 'Black Money'

By GEETA ANAND NOV. 20, 2016

MUMBAI, India — Indians' ingenuity is being mightily tested as they rush to save their "black money," stashes of hundreds of thousands, even millions, of rupees they have accumulated without paying taxes.

For decades, Indians have stuffed their mattresses with 500- and 1,000-rupee notes, the most widely circulated bills, worth the equivalent of a few dollars.

But Prime Minister Narendra Modi wanted to tax that money. His strategy was to force Indians to reveal what they had been hoarding. How? He banned the bills and told people that they had to exchange them for new ones.

The ban, which was announced on Nov. 8, has thrown the economy into chaos and sent Indians on a desperate search for some way, any way, to launder their accumulated money and avoid a financially disastrous loss.

People can exchange the banned notes through the end of the year for smaller denominations or new bills that are being created. Because more affluent Indians are allowed to deposit only 250,000 rupees, or about \$3,700, without proof that they paid taxes, some are handing wads of cash to poor people, paying them a fee to hold the money in their accounts and return it later. Others are thronging

jewelry stores and designer boutiques, carrying suitcases of banned currency notes, begging to buy something with backdated receipts.

“People felt, rather than turn my money into toilet paper, let me have a beautiful outfit,” Tina Tahiliani Parikh, the executive director of the Ensemble group of high-end Indian fashion stores, said in an interview.

Some have thrown in the towel, rather than risking an investigation into their taxes, filling pillowcases and paper bags with the old currency and dumping them in the trash. Notes of 1,000 rupees, the equivalent of about \$15, have been spotted floating down the Ganges River.

About a third of all business in India is carried out using black money. Whole industries, like real estate, trading, luxury retailing and wedding services, have been fueled by black money for decades. They have slumped.

Indians line up for hours in a quest for the 2,000-rupee notes that they are allowed to receive in exchange at banks and the 2,500 rupees that they can withdraw from A.T.M.s each day to pay for necessities. They often wait hours only to find that the bank or A.T.M. has run out of notes, which are scarce because the new ones are still being printed.

The Supreme Court of India on Friday refused to block cases being brought in lower courts challenging Mr. Modi's currency ban. The court said that people were frantic, and that the cases were a sign of a serious problem.

The chairman of the Indian Banks' Association said on Friday that all of the nation's banks would limit the exchange of banned notes to older citizens and their own customers on Saturday so the staff could focus on normal banking.

To a certain extent, analysts say, the Indian economy is so dependent on black money that economic dislocation was unavoidable if India was to seriously attack the problem. “In an emerging market economy like India, where corruption was deep rooted and long lasting, there is no way to put in place reform without significant disruption in the short run,” said Eswar S. Prasad, a professor of

economics at Cornell University.

The Mumbai novelist Namita Devidayal, in a Times of India column last week, described the efforts by many of India's wealthy women to salvage "those happy little bundles which she would whip out of her cupboard safe." Some were trying to pay their maids a year's salary upfront, using the old notes, which the maids could ostensibly convert to new currency at the bank because the total was under the \$3,700 limit.

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Others were paying for a year's hairdressing services in the old notes. Still others were pressing personal trainers, yoga teachers and children's tutors to take cash upfront for months of services.

Ms. Devidayal argued in an interview that the wealthy were "always trying to find some bargain by saving on taxes" and were by far the biggest exploiters of the black money system. "I know wealthy women so used to handling cash they can tell how much money there is by the weight of a bundle," she said.

Ms. Parikh said some customers had shown up with suitcases of cash, beseeching her staff to pretend the purchases were made days earlier, which the staff refused to do. Some other luxury goods stores not only obliged customers but solicited them, sensing an opportunity, Ms. Parikh said. "Everyone has tricks up their sleeves, backdating bills," she said.

Real estate has been particularly hard hit by the ban on black money, since sale documents filed with the government typically reflect only the portion of the sale price paid by check. As a result, the sellers have no way of explaining to the tax authorities how they received the cash, which can account for as much as 60 percent of the deal.

People who had just sold property were particularly out of luck, since they have not had a chance to spend or invest the cash they received. One man who had just received 3.5 million rupees, or about \$51,000, in a real estate sale said he was

hiring 14 low-income people to deposit the 250,000 rupees in old notes that they are allowed to exchange without raising questions. Such tactics, called bundling, are illegal in the United States.

Whether these schemes are successful will depend on the scrutiny of bank officials and the tax authorities. The Modi administration has said it will exercise extreme vigilance to prevent them, but the Indian government's record in the area of corruption is not strong. Nevertheless, the pledge to crack down has ignited such fear of future income tax investigations that some people have been dumping cash. Several garbage pickers in Mumbai have found pillow cases and sacks filled with cash in recent days, said Saumya Roy, the chief executive of the nonprofit Vandana Foundation, which makes loans to the garbage pickers, among other low-income residents in Mumbai and elsewhere.

In a country where government oversight is weak, it has been easy to transact business in cash and to avoid taxes. Paying cash was also a way of avoiding the scrutiny of tax authorities who might question where a family, particularly that of a politician or wealthy business owner, had amassed the resources to spend enormous amounts of money on real estate or a wedding. "India is so crazy and complicated," Ms. Devidayal said. "The option of not having black money is very much there, but because it's so habitual and easy, and you can just say, 'I had to do it,' many people did."

Cash had become so ingrained in the real estate industry that it was difficult to make a deal without paying some portion under the table. When Ramanan Laxminarayan, a Princeton University senior research scholar, tried to buy an apartment in the New Delhi area, he was told that he would have to provide 60 percent of the purchase price, about \$420,000, in cash to close the deal. Unable to raise such sums, he gave up trying to buy. "I said, 'Is it legal?' They said, 'Of course not,'" Mr. Laxminarayan said.

India's lavish weddings have taken a big hit. Families that had stashed large amounts of black money to spend in the coming wedding season, which starts in December, are scrambling to make contingency plans. "This whole business is

largely in cash,” from the caterer and musicians to the jeweler and ornate saris, said Satish Arora, a caterer and decorator in Faridabad, a city near Delhi.

Several marriages planned for five-star hotels have been downscaled, he said. Now, the best many can manage is “a simple joint reception.”

The luxury goods market also has been flattened. Business at some of Ms. Parikh’s Ensemble shops has dropped 60 percent since Mr. Modi announced his ban, she said. “We don’t know what will be normal in the future,” she said.

Correction: November 22, 2016

Because of an editing error, an article on Monday about India’s move to ban certain currency notes misstated an option available to Indians with the banned notes. They can deposit 250,000 rupees worth of notes, not exchange them. The article also misstated why people are lining up at A.T.M.s. They are seeking to withdraw the daily limit of 2,500 rupees, not 2,500-rupee notes (there is no such note).

Hari Kumar and Suhasini Raj contributed reporting from New Delhi.

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