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DORMANT COMPANIES V. SHELL COMPANIES IN INDIA: CORPORATE CONVENIENCE OR REGULATORY VULNERABILITY?

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ABSTRACT:-

The emergence of shell companies and dormant companies has become a significant concern within India's corporate governance and financial regulatory framework. While dormant companies are legally recognized under section 455 of the Companies Act, 2013 and are intended to facilitate legitimate commercial purposes such as holding assets, preserving intellectual property, and preparing for future business activities, concerns have increasingly arisen regarding their potential misuse. Shell companies, although not expressly defined under the Indian corporate legislation, are frequently associated with money laundering, tax evasion, benami transactions, accommodation entries, concealment of beneficial ownership, and round-tripping of funds. Their opaque operational structures and limited transparency have attracted significant scrutiny from regulatory authorities and investigative agencies.

This research paper critically examines the conceptual and regulatory distinction between dormant companies and shell companies within the Indian corporate law framework. It explores whether dormant company provisions, despite their legitimate legislative objectives, may inadvertently create regulatory vulnerabilities capable of being exploited for fraudulent or opaque financial activities. The paper further analyzes the evolution of corporate regulation in India, the concept and functioning of shell companies, the risks associated with inactive corporate entities, and the increasing overlap between dormant company structures and shell companies operations.

Keywords - Dormant companies, Shell companies, Corporate governance, Corporate transparency

1. Introduction:-

In India's rapidly evolving economy, corporate entities are indispensable instruments of modern commerce and economic development. The corporate structure performs multifaceted functions, some significant ones such as, allowing individuals to pool capital, limit liability, and undertake complex commercial activities with legal recognition and continuity. However, alongside legitimate corporate expansion,concerns regarding the misuse of corporate structures for illicit financial activities have also significantly increased.

The globalization of financial markets, rapid digitalization of transactions,and ease of incorporation of companies have intensified scrutiny over opaque corporate entities operating within the regulatory framework. While corporate flexibility and ease of doing business are essential for economic development, inadequate monitoring of inactive or non-transparent entities may create opportunities for financial abuse. Consequently, shell companies and dormant companies have emerged as significant subjects of regulatory and legal concern within India's corporate governance framework.

Shell companies are commonly associated with activities such as money laundering, tax evasion, benami transactions, accommodation entries, concealment of beneficial ownership, and round tripping of funds. Although Indian corporate legislation does not provide a precise statutory definition of a shell company, the term is frequently employed by regulatory authorities, investigative agencies, and courts to describe entities lacking genuine commercial activity and suspected of facilitating illicit financial transactions.

Dormant companies on the other hand, occupy a comparatively distinct legal position.The term "Dormant" typically refers to something that is not active presently but has the ability to grow or become active in the future.[38] Under section 455 of the Companies Act,2013, dormant companies are legally recognized intended to facilitate legitimate business objectives such as holding assets, preserving intellectual property, or preparing for future commercial projects. The legislative intent behind introducing dormant company provisions was to reduce compliance burdens on genuinely inactive companies while allowing them to retain legal existence of future business activities.[39]

Nevertheless, the overlap between dormant corporate structures and shell company risks has generated substantial regulatory concern. While dormant companies are not inherently unlawful, their reduced compliance obligations, inactive operational status, and limited scrutiny may potentially create opportunities for misuse by individuals seeking to conceal financial transactions, obscure beneficial ownership, or create layered corporate structures. The possibility that legally recognized inactive entities may function as vehicles for financial opacity raises more concerns relating to corporate transparency and regulatory accountability.

In recent years, the govt of India, the Ministry of Corporate Affairs (MCA), the Securities and Exchange Board of India (SEBI), and investigative agencies such as the Enforcement Directorate (ED) have intensified efforts to identify and eliminate suspicious shall entities. These regulatory actions became particularly significant following the 2016 Indian demonetization initiative, during which the authorities detected large-scale suspicious financial transactions routed through inactive and interconnected corporate entities. Government investigations reportedly revealed that thousands of suspected shell companies had deposited and withdrawn substantial amounts of money shortly after demonetization, raising serious concerns regarding money laundering, financial irregularities and misuse of the corporate structure.[40]

These developments have consequently led to broader concerns regarding whether dormant company provisions under Indian corporate law may inadvertently provide legal pathways capable of being exploited for fraudulent or opaque financial activities. Although dormant companies serve legitimate commercial purposes, insufficient monitoring and regulatory gaps may enable misuse under the guise of lawful inactivity. This creates a significant area of inquiry within contemporary corporate governance and financial regulation.

Therefore, although dormant companies were introduced to facilitate legitimate business objectives and reduce compliance burdens for inactive entities, their potential misuse within opaque financial structures remains a serious concern. The growing overlap between dormant corporate entities and shell company risks raises important questions regarding corporate transparency, beneficial ownership, and regulatory accountability. In this context, the present study seeks to examine whether the existing legal framework governing dormant companies under Indian corporate law is

[38] https://www.oxfordlearnersdictionaries.com/definition/english/dormant
[39] https://www.indiacode.nic.in/bitstream/123456789/2114/5/A2013-18.pdf
[40] https://timesofindia.indiatimes.com/india/35000-shell-firms-deposited-withdrew-rs-17000-crore-post-demonetisation/articleshow/61523109.cms

sufficient to prevent misuse while still preserving legitimate commercial flexibility.

1.1 Objective :-

The primary aim of this research paper is to critically examine the role of dormant and shell companies in India, assessing whether they serve as instruments of corporate convenience or pose regulatory vulnerabilities. The study seeks to identify gaps in the current framework and propose reforms to strengthen governance.

1.2 Research Problem :-

The central research problem lies in the tension between corporate flexibility and regulatory oversight. While dormant companies reduce compliance burdens, they risk becoming conduits for illicit activities. Shell companies, meanwhile, are often synonymous with limited transparency and misuse. The challenge is to design a framework that preserves legitimate utility while preventing abuse and addressing the existing concerns.

1.3 Research Methodology :-

This paper adopts a doctrinal research method to examine the legal framework and regulatory issues surrounding dormant and shell companies in India. The study relies primarily on secondary sources such as articles, books, journals,government reports, newspaper articles,and other credible online materials. To ensure consistency and credibility, all references are cited using the Bluebook 19th edition citation style.

2. Brief History

Corporate entities today are regulated by various laws, among which the Companies Act,2013 is one of the most significant. The origin of this legislation can be traced back to the colonial era.

The first Companies Act was enacted in the year 1866 with the objectives regulating the incorporation, administration and proper functioning of the companies then. The Companies Act of 1866 established guidelines for the registration of companies, filing of annual returns, inspection of corporate records, and winding up companies.Nevertheless, the legislation suffered from several shortcomings, particularly it failed to account for limited liability for shareholders.

The Act was soon replaced by the Companies Act, 1913. It had a massive role to play compared to its predecessor Act. One of its most significant contributions was to introduce the principle of limited liability, under which the stakeholders would be liable only to the extent of their investment in the company. This thereby encouraged investments and made it simpler for entrepreneurs to establish and expand their businesses. While this Act brought in effective changes, it had its own set of limitations.This was answered by the 1956 Act.

The 1956 Act introduced detailed regulations governing different forms of companies, these companies included, private, public and companies limited by guarantees. The Act established rules relating to conduct of meetings, corporate management, maintenance of statutory records, and appointment of auditors. It also mandated the filing of annual returns, enabled inspection of company documents, and prescribed penalties for non-compliance. Provisions under closure and dissolution of companies were also strengthened under this legislation.

Finally, the Companies Act,2013 replaced the 1956 Act, and brought in a modern approach in corporate governance in India. It introduced several important concepts such as corporate social responsibilities, Independent directors, and the National Company law Tribunal.[41]

The Act significantly revised the framework relating to the incorporations, functioning and winding up of companies. Among its significant innovations was the introduction, under section 455, of the concept of dormant companies, a recognition that legitimate corporate entities

[41] https://taxguru.in/company-law/journey-through-time-evolution-companies-act-india.html

may remain inactive for extended periods without being defunct.

3. Conceptual Understanding of Shell companies

The United States Securities and Exchange Commission defines a shell company as a registrant, excluding asset-backed issuers, that has either no or only nominal business operations and possess either no significant assets, assets consisting solely of cash and cash equivalents, or only nominal additional assets alongside cash and cash equivalents.[42] [43]

In simple terms, a shell company is generally understood as a corporate entity that exists primarily on paper with limited or no independent operational activity. Such entities may have minimal employees, negligible physical presence, and insignificant commercial transactions. Nevertheless, shell companies continue to enjoy a separate legal identity and may engage in financial transactions, hold assets, or function as intermediaries within larger corporate arrangements.

There is a general understanding that the shell companies are inherently illegal, this is not entirely true. In major cases, they are also created for valid financial and commercial objectives. Shell corporations are established with the legitimate aim to hold investments, preserve intellectual property,etc. In international business standards shell companies could be used to simplify corporate restructuring and asset management.

Despite these, there are concerns when such companies are utilized for illegal and immoral activities with an intention to deceive. Due to their limited transparency or opaque tendency and also their inactive operational nature, shell corporations are often associated and have been held liable for money laundering, tax evasion, benami transactions, accommodation entries, concealment of beneficial ownership,etc.

In the case of Shaan construction Pvt. Ltd. v. ITO, the tribunal dismissed the assessee's appeal and held that the assessee had devised a scheme to introduce unaccounted money into the financial system through multiple companies under the guise of share capital and share premium. The tribunal observed that the method adopted for issuing shares, furnishing confirmations, maintaining accounts, and producing banking records demonstrated an artificial arrangement intended to create an appearance of legitimacy.[44]

One of the major risks associated with shell companies is to identify the beneficial ownership. In majority cases, the shell corporations work through nominee directors or proxy shareholders, or layered ownership structures spread across multiple jurisdictions. Such arrangements create significant obstacles for regulatory authorities and investigate agencies attempting to trace financial transactions and determine accountability.

International organizations have repeatedly emphasized the dangers posed by anonymous corporate structures. The Financial Action Task Force (FATC) has identified shell companies and opaque legal entities as significant tools frequently used in money laundering and financial concealment schemes.[45] Similarly, the Organisation for Economic Co-operations and Development (OECD) has highlighted the misuse of shell entities in aggressive tax planning, offshore secrecy arrangements, and cross-border tax avoidance structures.[46]

In India, although the Companies Act,2013 does not expressly define the term "shell company", regulatory authorities such as the Ministry of Corporate Affairs(MCA),the Securities and Exchange Board of India(SEBI) and the Enforcement Directorate (ED) have repeatedly

[42] https://www.law.cornell.edu/cfr/text/17/230.405
[43] https://www.sec.gov/rules-regulations/2004/04/use-form-s-8-form-8-k-shell-companies
[44] Shaan Construction Pvt. Ltd. v. ITO, ITA Nos. 4520/Del/2009 & 613/Del/2013 (ITAT Delhi Apr. 28, 2018).
[45] https://www.fatf-gafi.org/en/topics/beneficial-ownership
[46] https://www.oecd.org/en/topics/policy-issues/base-erosion-and-profit-shifting-beps.html

investigated entities suspected of functioning as shell companies. Particularly after the 2016 Indian demonetization initiative, shell companies become a major focus of governmental scrutiny due to allegations of financial irregularities and suspicious fund transfers through inactive corporate entities.

Therefore, while shell companies may serve legitimate commercial objectives, their potential misuse for financial opacity and unlawful activities necessitates stronger regulatory oversight, beneficial ownership disclosure mechanisms, and enhanced corporate transparency standards.

4. Dormant companies under Indian Corporate Law

The concept of dormant companies was formally introduced in India through Section 455 of the Companies Act, 2013. The provision was enacted with the objective of providing legal recognition to companies that are inactive for a temporary period but intend to remain incorporated for future business purposes. Prior to the enactment of the Companies Act, 2013, Indian corporate law did not contain a specific framework governing dormant corporate entities. The introduction of dormant company provisions reflected the legislature's intention to promote ease of doing business by reducing unnecessary compliance burdens on genuinely inactive companies.

Under Section 455(1) of the Companies Act, 2013, a company may apply to the Registrar of Companies (ROC) for obtaining the status of a dormant company if it is formed and registered for a future project, holds an asset or intellectual property, has no significant accounting transactions, or remains inactive for a specified period. The provision also enables the Registrar to classify an inactive company as dormant in accordance with prescribed conditions.[47]

The Act defines an "inactive company" as a company which has not been carrying on any business or operation, or has not made any significant accounting transaction during the last two financial years, or has not filed financial statements and annual returns during that period. However, certain transactions such as payment of statutory fees, allotment of shares for compliance purposes, maintenance of office records, and payments made to fulfill legal requirements are excluded from the meaning of "significant accounting transactions."[48]

Dormant company status serves several legitimate commercial purposes. Many companies retain dormant status for preserving brand names, intellectual property, future investment opportunities, or long-term business projects. In some cases, dormant companies are maintained to hold assets or property until commercial operations commence. The framework therefore provides flexibility to corporations and entrepreneurs who may not immediately undertake active business operations but seek to retain their corporate identity and legal continuity.

The Companies Act, 2013 also prescribes certain compliance obligations for dormant companies, though these obligations are comparatively reduced when compared to active companies. Dormant companies are required to maintain a minimum number of directors, file prescribed documents annually, and continue compliance with basic statutory requirements. Failure to comply with such obligations may result in the company losing its dormant status or being struck off from the register of companies.

Despite the legitimate objectives behind Section 455, dormant companies have increasingly attracted regulatory scrutiny due to the possibility of misuse. Their inactive operational status, reduced compliance burden, and comparatively lower regulatory monitoring may create opportunities for individuals seeking to conceal financial transactions, obscure beneficial ownership, or create layered corporate arrangements. This overlap between

[47] https://www.indiacode.nic.in/bitstream/123456789/2114/5/A2013-18.pdf

[48] https://taxguru.in/company-law/dormant-company-india-legal-framework-procedure-compliances.

dormant entities and shell company risks has raised concerns regarding whether legally recognized inactive companies could potentially be exploited as instruments of financial opacity.[49]

The concern becomes particularly significant in light of India's increasing focus on anti-money laundering measures, beneficial ownership disclosure, and corporate transparency. Regulatory authorities such as the Ministry of Corporate Affairs (MCA), the Securities and Exchange Board of India (SEBI), and the Enforcement Directorate (ED) have intensified scrutiny over inactive corporate entities, especially after the 2016 Indian demonetization initiative exposed the misuse of numerous inactive companies for suspicious financial transactions.

Therefore, although dormant companies were introduced to facilitate legitimate commercial convenience and reduce regulatory burdens on inactive entities, their potential misuse presents important challenges for corporate governance and financial regulation. Balancing commercial flexibility with effective oversight remains a critical issue within India's evolving corporate regulatory framework.

5. The Overlap Between Dormant Companies and Shell Company Risks

5.1 Structural Similarities

Although dormant companies and shell companies are legally distinct in their objectives and regulatory treatment, they possess several similar structural characteristics that raise regulatory concerns. Both categories typically involve entities with little or no active business operations, limited oversight from regulators and the public, minimal financial reporting requirements, and restricted commercial activities. Due to these overlapping features, authorities may face difficulties in distinguishing a legitimately dormant company from one being misused as a shell company for unlawful or improper activities.

The Government of India itself has recognised the connection between dormant companies and the misuse of shell companies in financial frauds. After demonetisation, the Ministry of Corporate Affairs (MCA) brought Sections 248 to 252 of the Companies Act, 2013 into force, allowing authorities to strike off companies that had neither obtained dormant status under Section 455 nor carried on genuine business activities. This move demonstrated how the regulation of inactive corporate entities became closely linked to the broader effort to combat black money and financial irregularities.[50]

5.2 Potential Misuse of Dormant Companies

The comparatively relaxed compliance requirements applicable to dormant companies can create opportunities for misuse in several ways. Dormant companies may be used to hold undisclosed funds or assets, as their inactive status can reduce the likelihood of regulatory attention. In addition, complex corporate structures involving dormant companies at different levels may be designed to conceal beneficial ownership and make financial transactions difficult to trace. Another possible misuse arises when dormant companies are temporarily reactivated to conduct suspicious transactions and then returned to inactive status, thereby taking advantage of the limited scrutiny generally associated with dormant entities.

5.3 The Case of *Shaan Construction Pvt. Ltd. v. Income Tax Officer*

The risks associated with layered corporate structures were also evident in *Shaan Construction Pvt. Ltd. v. Income Tax Officer*. In this case, the Income Tax Appellate Tribunal (ITAT) rejected the appeal of the assessee and observed that the company had created a scheme to introduce unaccounted money into the financial system by routing it through several

[49] https://ijlr.iledu.in/v6i245/

[50] https://indiacorplaw.in/2018/12/stand-shell-companies

companies in the form of share capital and share premium.[51]

The Tribunal noted that the manner in which shares were issued, confirmations were furnished, accounts were maintained, and banking records were presented pointed towards an artificial arrangement intended to give an appearance of legitimacy to otherwise suspicious transactions. The case demonstrates how layered corporate entities, particularly those with minimal genuine business activity, may be misused as vehicles for channeling unaccounted money into the formal economy.

6. Legal and Policy Gaps in the current framework

6.1 Absence of a Statutory Definition of Shell Companies

One of the most significant shortcomings in the existing Indian corporate regulatory framework is the lack of a statutory definition for the term "shell company" under the Companies Act, 2013. This absence creates considerable enforcement difficulties, as regulatory and investigative authorities rely largely on administrative interpretations and judicial precedents. Consequently, the classification of a company as a shell entity often becomes inconsistent and legally uncertain, allowing affected companies to contest such classifications before courts. Although the Ministry of Corporate Affairs (MCA) has consulted the Securities and Exchange Board of India (SEBI) regarding the formulation of a definition, no legislative clarification has yet been enacted.

6.2 Insufficient Monitoring of Dormant Companies

While Section 455 of the Companies Act, 2013 establishes limited compliance obligations for dormant companies, the mechanisms for monitoring and verification remain weak. The Registrar of Companies (ROC) maintains a register of dormant companies; however, it lacks effective real-time systems to identify suspicious or irregular activity. Since dormant companies are subject to minimal filing requirements, and ROC offices face resource and manpower constraints, detailed scrutiny of such filings is often limited. As a result, dormant status may be acquired and retained with relatively little oversight, thereby increasing the possibility of regulatory misuse.

6.3 Gaps in Beneficial Ownership Disclosure

Section 90 of the Companies Act, 2013, read with the Companies (Significant Beneficial Owners) Rules, 2018, mandates disclosure by individuals holding at least 10% beneficial ownership in a company. Although this framework marked a substantial advancement in transparency requirements, several shortcomings remain, particularly concerning dormant and shell entities. The system primarily depends on self-disclosure, meaning its effectiveness relies heavily on truthful declarations by the concerned individuals. Furthermore, complex multilayered corporate arrangements, especially those involving foreign entities, may obstruct the identification of the ultimate beneficial owner.

The Financial Action Task Force (FATF), in its 2024 Mutual Evaluation Report on India, recognised improvements in India's beneficial ownership regime while simultaneously highlighting the need for stronger safeguards, particularly in relation to trade-based money laundering and inter-sectoral coordination. FATF's revised Recommendation 24 (2022) further emphasises the necessity for countries to eliminate loopholes that enable criminals to conceal their identities through opaque corporate structures.

6.4 Deficiencies in Inter-Agency Coordination

The supervision of dormant and shell companies in India involves several regulatory and enforcement agencies, including the MCA, SEBI, Enforcement Directorate (ED), Serious Fraud Investigation Office (SFIO), Central Board of Direct Taxes (CBDT), Reserve Bank of India (RBI),

[51] Shaan Construction Pvt. Ltd. v. ITO, ITA Nos. 4520/Del/2009 & 613/Del/2013 (ITAT Delhi Apr. 28, 2018).

and Financial Intelligence Unit–India (FIU-IND). Although the establishment of the 2017 Task Force represented progress toward coordinated regulation, significant issues continue to persist. Fragmented information systems, inconsistent data-sharing practices, and the absence of a unified corporate risk-assessment framework hinder timely identification of suspicious entities. Additionally, the stringent evidentiary standards required under the Prevention of Money Laundering Act (PMLA) make successful prosecution in such cases particularly challenging.

6.5 Reactivation Without Enhanced Due Diligence

At present, the process through which a dormant company resumes active operations does not mandate enhanced due diligence concerning the origin of its assets or the continuity of its beneficial ownership disclosures. Consequently, a company that was previously dormant may be reactivated and begin financial operations immediately without undergoing any comprehensive review of its ownership structure, historical transactions, or asset profile. This regulatory gap creates an opportunity for misuse during the transition from dormant to active status.

6.6 Limited Deterrence Through Penalty Provisions

The penalties applicable to dormant companies under the Companies Act, 2013 and the PMLA are often inadequate to effectively discourage misuse. For example, administrative fines imposed for non-compliance with filing obligations are comparatively low. Although the Prevention of Money Laundering Act mandates imprisonment of three to seven years for money laundering offences, the complex process of tracking illegally obtained funds through multi-layered corporate structures frequently results in lower conviction rates and less effective enforcement.

7. Literature Review

The academic and policy discussion surrounding dormant and shell companies in India has expanded significantly, especially after the 2016 demonetization and the government's intensified crackdown on suspicious corporate entities. Scholars and legal commentators have closely examined whether the existing legal framework is adequate to address the misuse of companies for unlawful financial activities.

In an article published on IndiaCorpLaw, the authors questioned the government's tendency to treat dormant company regulation and shell company prevention as the same issue. While they acknowledged the legitimacy of the government's objective, they argued that relying heavily on the striking-off mechanism under Section 248 of the Companies Act, 2013 could unfairly affect genuinely inactive companies that had not formally applied for dormant status.[52] According to them, authorities were increasingly equating procedural non-compliance with fraudulent intent, which created the risk of penalizing legitimate businesses.

Another major concern highlighted in the literature is the absence of a clear statutory definition of a "shell company." Legal scholars and practitioners have repeatedly pointed out that this definitional gap creates uncertainty in enforcement and raises due process concerns for companies that may be wrongly labelled as shell entities.[53] These concerns became especially visible during SEBI's 2017 action against 331 suspected shell companies, where several actively functioning companies with institutional investors were reportedly included in the list.

With respect to beneficial ownership, most academic commentary supports the strengthening of Section 90 of the Companies Act, 2013, which deals with Significant Beneficial Ownership (SBO). However, scholars also emphasize that the current framework suffers

[52] https://indiacorplaw.in/2018/12/07/stand-shell-companies/

[53] https://www.business-standard.com/article/markets/what-is-a-shell-company-govt-mulls-watertight-rules-to-fix-irregularities-118051300232_1

from practical limitations. The SBO regime largely depends on self-disclosure by companies and individuals, penalties for non-compliance remain relatively weak, and authorities often face difficulties when ownership structures involve foreign jurisdictions. These challenges reduce the effectiveness of the regime in identifying the true controllers of dormant or shell companies.[54]

Internationally, the recommendations of the Financial Action Task Force (FATF) have played an important role in shaping reform discussions in India. FATF guidance stresses the importance of maintaining verified and publicly accessible beneficial ownership registers, ensuring timely access to accurate ownership information for enforcement agencies, and adopting a risk-based approach to monitoring legal entities. These principles are frequently used as benchmarks for evaluating India's corporate transparency framework.[55]

The literature on the Prevention of Money Laundering Act (PMLA) has also highlighted the difficulties involved in prosecuting financial crimes committed through corporate structures. Scholars contend that even though Section 3 of the PMLA adopts an expansive definition of money laundering, enforcement authorities continue to encounter major practical difficulties. The requirement to establish a predicate offence, along with the substantial evidentiary burden placed on investigating agencies, often makes it challenging to successfully prosecute cases involving dormant or shell company structures.[56]

8. Recommendations and Reforms:-

8.1 Statutory Definition of Shell Companies

One of the most important reforms required in the current framework is the introduction of a clear statutory definition of the term "shell company" within the Companies Act, 2013.Currently, the lack of a statutory definition creates ambiguity in enforcement and allows scope for inconsistent or discretionary interpretation by regulatory authorities. Introducing a clear legislative definition would bring greater certainty to the legal framework and promote more consistent regulatory enforcement. Such a definition should identify the core characteristics of shell companies, including the absence of genuine business operations, minimal physical or financial presence, and opaque ownership structures, while at the same time excluding legitimate dormant companies used for lawful commercial purposes.

8.2 Enhanced Monitoring of Dormant Companies

There is also a need to strengthen the monitoring mechanism applicable to dormant companies. The Registrar of Companies (ROC) should be supported with advanced digital monitoring systems capable of tracking financial activity associated with dormant entities in real time or near real time. Greater coordination between the Ministry of Corporate Affairs (MCA), banks, and the Financial Intelligence Unit (FIU) would help authorities identify dormant companies that are being misused as channels for suspicious financial transactions. In addition, dormant status should not rely solely on self-certification by companies. Periodic third-party verification, particularly for companies that have remained dormant for long periods, may help ensure greater accountability and transparency.

8.3 Strengthening Beneficial Ownership Disclosure

The framework relating to Significant Beneficial Ownership (SBO) under Section 90 of the Companies Act, 2013 also requires strengthening. The existing threshold for beneficial ownership disclosures may be reconsidered for dormant or recently reactivated companies, as these entities may

[54] https://law.asia/significant-beneficial-ownership-rules-revamped/
[55] https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Guidance-Beneficial-Ownership-Legal-Persons
[56] https://advocategandhi.com/offence-of-money-laundering-a-comprehensive-legal-overview/

present a comparatively higher risk of misuse. Furthermore, India should consider establishing a publicly accessible beneficial ownership register in line with international transparency standards recommended by the Financial Action Task Force (FATF). Such a mechanism would improve transparency and enable creditors, investors, and regulatory authorities to verify the actual individuals exercising control over corporate entities.

8.4 Enhanced Scrutiny During Reactivation

The process of reactivating dormant companies should also be subjected to stricter scrutiny. Before a dormant company resumes active business operations, authorities should require updated disclosures relating to assets, liabilities, source of funds, and beneficial ownership. Additional verification from relevant investigative and regulatory agencies may also be introduced to ensure that dormant entities are not being revived for unlawful financial activities. Such measures would help close existing regulatory gaps that may otherwise allow dormant companies to be used for immediate transactional purposes without adequate oversight.

8.5 Stronger Inter-Agency Coordination

Effective regulation of dormant and shell companies also requires stronger coordination between different regulatory and enforcement authorities. A permanent inter-agency mechanism involving the MCA, Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), the Enforcement Directorate (ED), the Financial Intelligence Unit (FIU-IND), and tax authorities would improve information sharing and regulatory efficiency. The creation of a centralized risk-assessment system based on factors such as filing history, banking activity, beneficial ownership disclosures, and adverse intelligence inputs may further help authorities identify suspicious corporate entities at an early stage.

8.6 Stronger Penalty Provisions

The present penalty framework relating to dormant company compliance and beneficial ownership disclosures also requires strengthening. Penalties for non-compliance should be proportionate to the seriousness of the violation and the value of assets involved, rather than being limited to fixed monetary amounts. In cases where dormant companies are used for activities such as money laundering, tax evasion, or concealment of illicit funds, stricter enforcement under the Prevention of Money Laundering Act, 2002 (PMLA) should be invoked alongside the Companies Act provisions. Additionally, investigative agencies such as the Serious Fraud Investigation Office (SFIO) should be granted wider powers to initiate investigations independently where necessary.

8.7 International Alignment

Finally, India's regulatory framework relating to dormant companies and beneficial ownership disclosure should be aligned more closely with international standards. Greater conformity with FATF Recommendations 24 and 25, as well as the Organisation for Economic Co-operation and Development (OECD) standards on corporate transparency and Base Erosion and Profit Shifting (BEPS), would strengthen India's anti-money laundering and corporate governance framework. Measures such as verified beneficial ownership registers, real-time access to ownership information for competent authorities, and stronger international information-sharing mechanisms would significantly improve transparency and reduce the risk of misuse of dormant or shell company structures.

9. Conclusion

The regulation of dormant and shell companies in India represents one of the most significant challenges within modern corporate governance. On one side, the dormant company framework under Section 455 of the Companies Act, 2013 reflects a practical legislative approach that acknowledges that businesses may

experience periods of genuine inactivity. By reducing unnecessary compliance requirements while preserving corporate identity, the framework promotes ease of doing business and provides flexibility to companies intending to resume operations in the future.

At the same time, as discussed throughout this paper, the similarities between dormant companies and shell companies, including minimal operational activity, limited regulatory scrutiny, and reduced transparency, give rise to serious regulatory concerns. The events following the 2016 Indian demonetization initiative demonstrated the extent to which inactive or legally recognized corporate entities could potentially be misused for concealing financial transactions and facilitating unlawful activities. These concerns are further intensified by the absence of a statutory definition of shell companies, insufficient monitoring mechanisms for dormant entities, gaps in beneficial ownership disclosure requirements, and inadequate coordination among regulatory authorities.

The reforms suggested in this paper, including the introduction of a statutory definition of shell companies, stronger monitoring mechanisms, improved beneficial ownership disclosure requirements, enhanced scrutiny during the reactivation of dormant companies, better coordination between regulatory agencies, stricter penalty provisions, and greater alignment with international standards, are intended to address these vulnerabilities while continuing to preserve the legitimate purpose of dormant companies. The intention is not to treat dormant companies as inherently suspicious, but rather to ensure that the reduced compliance framework applicable to such entities is not misused to evade financial accountability and regulatory oversight.

Ultimately, the effectiveness of India's corporate governance framework will depend not only upon the existence of strong legal provisions, but also upon the efficiency of their implementation and the ability of regulatory institutions to function in a coordinated, transparent, and accountable manner. Achieving a balance between corporate convenience and effective regulatory oversight therefore remains one of the most important challenges within India's evolving corporate regulatory framework.

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