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UNACCOUNTED WEALTH AND ILLICIT TAX AVOIDANCE PRACTICES IN INDIA'S REAL ESTATE SECTOR: EVALUATING THE IMPACT OF GOVERNMENT CRACKDOWNS IN SECOND-TIER URBAN CENTERS

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ABSTRACT
India's real estate sector has been for a long time a point of focus for unaccounted wealth circulation and illicit tax avoidance practices, especially because of its high-value cash- based transactions. While reforms have received substantial attention in major metropolitan areas, second-tier urban centers remain relatively underexamined. This research hunts through various policy interventions like the 2016 currency invalidation move of 2016, the implementation of the Real Estate (Regulation and Development) Act (Real Estate Regulatory Authority (RERA)), amendments to the legislation against proxy property holdings, and the introduction of Goods and Services Tax (GST) to study their effeciency in curbing illicit financial activity in emerging urban markets. Relying entirely on pre-existing published data from government documents, media reports, real estate analytics, and academic papers, the paper explores the shifts in transaction trends, registration practices, and pricing corrections. While some progress is evident, systemic inefficiencies and enforcement challenges continue to obstruct complete transparency in Tier II regions. The study concludes by proposing robust digitization, localized Real Estate Regulatory Authority (RERA) empowerment, and awareness leads as next steps for sustained reform.

Keywords: *unaccounted wealth, illicit tax avoidance practices,second-tier urban centers ,Real Estate Regulation (Real Estate Regulatory Authority (RERA)) ,Benami Transactions*

1. INTRODUCTION
Taxation forms the financial pillar of any functioning government, enabling the delivery of required infrastructure and public services. However, the widespread practice of illicit tax avoidance practices manifesting through hidden incomes, inflated expenses, or undocumented transactions undermines this crucial revenue stream. In India, the real estate sector has come to light as a noteworthy arena for such financial misconduct due to the prevalence of high-value dealings and the historic use of unaccounted cash in property exchanges.

According to projections by IBEF (2024), India's real estate industry is on course to reach a overall sector valuation of USD 1 trillion by 2030. Much of this growth is now being driven by second-tier urban centers such as Visakhapatnam, Pune, Indore, and Lucknow. These cities not only provide promising development opportunities, but also present distinctive regulatory vulnerabilities. Their semi-urban character, coupled with administrative limitations, makes them specifically doubtful to unaccounted wealth flows, informal ownership structures, and weak adherence to regulations practices.

Recognizing these difficulties, the Indian government has introduced multiple regulatory interventions over the past decade. Initiatives such as the 2016 currency invalidation move of 2016, the enforcement of Real Estate Regulatory Authority (RERA), amendments to the legislation against proxy property holdings, and the introduction of Goods and Services Tax (GST) were all aimed at enhancing transparency and reducing illicit financial activity within the real estate domain.

This paper undertakes an in-depth examination of these reforms, highlighting specifically on their implementation and results within Tier II markets. By relying entirely on pre- existing published data sources, the study aims to critically understand how efficient these steps have been in curbing illicit tax avoidance practices, identifying persisting loopholes, and suggesting pathways for more efficient regulatory enforcement moving forward.

2. LITERATURE REVIEW
Multiple academic and policy-oriented studies have investigated the crossing of unaccounted wealth circulation and real estate practices in India. Chattopadhyay (2018) highlighted that prior to the major regulatory changes in 2016, approximately 30–40% of real estate transactions in India were conducted through cash, facilitating fertile ground for unaccounted income circulation. This was largely backed by the informal dynamics between property developers and buyers, as noted by Aggarwal (2020), who emphasized how cash dealings had become normalized in many parts of the country.

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Singh and Bandyopadhyay (2017) observed a temporary slump in transaction volumes and real estate prices in the aftermath of currency invalidation move of 2016, especially in cities with minimal regulatory oversight. Similarly, Joshi (2019) examined the implementation of Real Estate Regulatory Authority (RERA) and found it had led to a substantial increase in formal registrations and regulatory oversight, albeit predominantly in larger urban areas, with limited spillover into smaller cities.

Although these individual studies impart understanding into the effectiveness of singular reforms, there exists a gap in literature concerning the cumulative impact of numerous government interventions in Tier II real estate markets. This study aims to bridge that gap by employing a policy-impact framework that collectively evaluates the efficacy of key reforms in these emerging urban areas.

3. OBJECTIVES OF THE STUDY

To inspect the extent of unaccounted wealth circulation in the real estate markets of second-tier urban centers before the implementation of government interventions.

To evaluate the influence of key reforms namely currency invalidation move of 2016, Real Estate Regulatory Authority (RERA), the Benami Transactions Amendment Act, and GSTon enhancing tax adherence to regulations and transparency in these regions.

To identify the remaining structural gaps and enforcement challenges that persist to allow unaccounted transactions and benami ownership in Tier II real estate markets.

4. METHODOLOGY

This study is based on a qualitative analysis of pre-existing published data, from a diverse range of trust-worthy sources. These include official publications from government agencies including the Ministry of Housing and Urban Affairs (MoHUA), the Central Board of Direct Taxes (CBDT), and the Ministry of Finance. Supplementary insights are gathered from industry-specific bodies such as the Confederation of Real Estate Developers' Associations of India (CREDAI), Knight Frank, and Anarock, in addition to parliamentary proceedings, academic journals, and leading media publications.

A descriptive-analytical framework supports the analysis, incorporating key indicators such as real estate price trends, stamp duty and property registration records, and income tax adherence to regulations metrics. Comparative snapshots from selected second-tier urban centers are also employed to contextualize patterns in enforcement and market behavior. A sophisticated understanding of reform effects across various urban ecosystems is made possible by this tiered approach.

5. ANALYSIS AND FINDINGS

5.1 Pre-2016 Scenario: Widespread Use of Cash

Before 2016, cities like Coimbatore, Bhopal, and Lucknow were majorly dependent on cash transactions mostly accounting for nearly half of the total property value. These informal deals encouraged benami holdings and price inflation, allowing illicit tax avoidance practices to flourish.

5.2 Impact of currency invalidation move of 2016

The withdrawal of ₹500 and ₹1,000 notes in late 2016 caused a sharp decline—between 30% and 40% in property sales, especially in secondary markets. currency invalidation move of 2016 also narrowed the gap between market prices and official circle rates, creating more price transparency.

5.3 Role of Real Estate Regulatory Authority (RERA)

The Real Estate (Regulation and Development) Act required developers to register projects, disclose ownership information, and resolve buyer complaints. Over 32,000 projects were registered by 2022, but only about a third were in Tier II or III cities. Strong enforcement in states like Gujarat and Maharashtra helped improve adherence to regulations, but digital and manpower limitations constrained reach in other regions.

5.4 Effect of the Benami Transactions Act

By 2023, authorities had attached benami properties worth over ₹18,000 crore—many located in second-tier urban centers. While this suppressed over benami ownership, loopholes still allowed layered ownership structures using extended family names or proxy entities.

5.5 Goods and Services Tax (GST) Implementation

The introduction of Goods and Services Tax (GST) helped formalize tax structures in under-construction properties. Developers were incentivized to keep formal records to claim input tax credits.

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However, cash deals remain common in the sale of ready-to-move properties, which are exempt from Goods and Services Tax (GST).

6. CASE SNAPSHOTS NAGPUR (MAHARASHTRA):

Following Real Estate Regulatory Authority (RERA)'s introduction, Nagpur experienced a 120% rise in project registrations between 2017 and 2022. Although currency invalidation move of 2016 temporarily deflated prices in the luxury housing segment by nearly 18%, the city's cash-based land deals—especially in plot transactions—remained active, revealing persistent informal channels.

Surat (Gujarat):

The diamond-fueled economy of Surat gradually moved toward formal payment systems post-currency invalidation move of 2016, with more buyers opting for cheque transactions. Yet, loopholes persisted in the form of land transfers involving shell companies, indicating that regulatory enforcement faced difficulty to contend with creative evasion.

Lucknow (Uttar Pradesh):

Enforcement of the Benami Transactions Act led to the attachment of assets worth ₹600 crore since 2020. Despite this, Real Estate Regulatory Authority (RERA)'s digital grievance redressal mechanism remained less efficient in Lucknow in comparison to larger cities, slowing the pace of consumer protection.

Visakhapatnam (Andhra Pradesh):

Real estate activity spiked around 2015–16 amid discussions of capital relocation, resulting in speculative land buying. Post-reforms, the city saw an 18% drop in land registrations but a 27% rise in transactions routed through formal banking channels. However, land encroachment and benami ownership in peri-urban tribal zones remain challenges.

Pune (Maharashtra):

Despite bordering Tier I status, Pune's suburban stretch behaves like a Tier II market. With over 3,000 project registrations under Real Estate Regulatory Authority (RERA) by 2023, regulatory adherence refined. Yet, survey data suggested that 41% of under- construction homebuyers were unaware of their Goods and Services Tax (GST) eligibility. In outlying areas like Wagholi and Hinjawadi, unrecorded cash dealings continue, exposing gaps in implementation.

7. CHALLENGES AND LOOPHOLES

Feeble Institutional Capacity: Several state Real Estate Regulatory Authority (RERA) authorities in second-tier urban centers are hampered by limited staff, outdated IT systems, and low public visibility.

Persistent Informal Brokerage: Unregistered middlemen still play a dominant part in property deals, facilitating undocumented cash components.

Benami Workarounds: Evasion tactics like property purchases in relatives' names or layering through cooperative societies persist to bypass enforcement.

Lack of Public Awareness: Often homebuyers remain unaware of the tax benefits of full disclosure and the legal coverage offered under Real Estate Regulatory Authority (RERA) and Goods and Services Tax (GST).

8. RECOMMENDATIONS

Strengthen State Real Estate Regulatory Authority (RERA) Capacity: Invest in human resources, training, and digital infrastructure at the state level to make sure regular enforcement across cities.

Implement Geo-Tagged Registries: Linking property records to spatial data can help avert fictitious ownership and layering of titles.

Encourage Transparent Transactions: Offer fiscal motives such as reduced stamp duties or registration fees for buyers using traceable payments.

Conduct Awareness Campaigns: Initiate public education initiatives highlighting on legal rights, fair practices, and tax advantages in real estate dealings.

Enhance Inter-Agency Coordination: Enable seamless data-sharing among income tax authorities, land registrars, and Real Estate Regulatory Authority (RERA) offices to recognise suspicious patterns.

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9. CONCLUSION

The Indian real estate sector, while being a pillar of economic growth, has also served as a critical channel for unaccounted wealth and illicit tax avoidance practices. This dual nature has posed persistent challenges for regulators and policymakers, particularly in rapidly urbanizing second-tier urban centers.

Drawing exclusively on secondary sources, this study explored the collective result of landmark reforms currency invalidation move of 2016, Real Estate Regulatory Authority (RERA), the Benami Transactions Amendment Act, and Goods and Services Tax (GST) on these changing markets. The findings recommend that while transparency and documentation have improved in several regions, deep-rooted behavioral and structural issues continue to limit full reform implementation.

Currency invalidation move of 2016 created a temporary dent in cash transactions, but its long-term deterrence effect is mixed. Real Estate Regulatory Authority (RERA) has led to greater regulatory adherence to regulations and project accountability, yet its uneven rollout in second-tier urban centers hampers its reach. Similarly, although the Benami law has empowered enforcement agencies, ownership layering tactics remain a common evasion route. The Goods and Services Tax (GST) regime has introduced clarity in under-construction projects but left a loophole by exempting completed properties.

Case studies from cities like Nagpur, Surat, Lucknow, and Pune underscore that although upside has been made, real estate in second-tier urban centers continues to operate in a semi-formal grey zone. Challenges include under-resourced Real Estate Regulatory Authority (RERA) units, unregulated intermediaries, limited public understanding, and fragmented databases.

To truly align the real estate sector with India's vision of a transparent and inclusive economy, reforms must now go beyond central legislation. The focus must move to localized, state-driven implementation, reinforced by digital innovation, inter-agency collaboration, and behavioural change between buyers and developers. Only then can India meaningfully reduce unaccounted wealth and build a housing market rooted in fairness, legality, and accountability.

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