

**Government of India  
Ministry of Finance  
Department of Revenue  
Central Board of Direct Taxes**

New Delhi, 11<sup>th</sup> April, 2023

PRESS RELEASE

**Search and seizure action by Income Tax Department in Karnataka**

Income Tax Department commenced a Search & Seizure operation in the case of some Cooperative Banks, in the State of Karnataka, on 31.03.2023. These cooperative Banks have been found to be engaged in routing of funds of various business entities of their customers, in a manner, so as to abet them to evade their tax liabilities. A total of 16 premises were covered in the search action.

A large number of incriminating evidences in the form of hard copy documents and soft copy data have been found and seized during the search action. The seized evidences revealed that these Cooperative Banks were involved in rampantly discounting bearer cheques issued by various business entities, in the name of various fictitious non-existing entities. These business entities included contractors, real estate companies, etc. No KYC norms were followed while discounting such bearer cheques. The amounts after discounting were credited in the bank accounts of certain Cooperative Societies maintained with these Cooperative Banks. It was also detected that some Cooperative Societies subsequently withdrew funds in cash from their accounts and returned the cash to business entities. The purpose of such discounting of large number of cheques was to mask the real source of the cash withdrawal, and to enable the business entities to book bogus expenses. In this modus operandi, Cooperative Societies have been used as a conduit. Further, by using this modus operandi these business entities were also circumventing the provisions of the Income-tax Act, 1961, which limits the allowable business expenditure incurred other than by account payee cheque. Bogus expenditure booked in this way by these beneficiary business entities, could be to the tune of about **Rs 1,000 crore**.

During the search, it was also found that these Cooperative Banks allowed opening FDRs by using cash deposits without adequate due diligence, and subsequently sanctioned loan using the same as collateral. Evidence seized during the search revealed that unaccounted cash loans of over **Rs 15 crore** have been given to certain persons/customers.

It was also unearthed during the search action that the management of these Cooperative banks have indulged in generating unaccounted money through their real estate & other businesses. This unaccounted money, has been brought back in the books of account, by multiple layering, through these banks. Further, the bank funds were routed, without following due diligence, through various firms and entities owned by the management persons, for their personal use.

The search action has resulted in seizure of unaccounted cash of over **Rs 3.3 crore** and unaccounted gold jewellery worth over **Rs 2 crore**.

Further investigations are under progress.

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