

GST Fraud and Money Laundering in India: Legal Challenges Under the Prevention of Money Laundering Framework

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Abstract

The implementation of the Goods and Services Tax (GST) in India has been heralded as a revolutionary change that sought to establish a uniform system of indirect taxation. However, while the GST system was designed to ensure efficient tax administration and minimise tax fraud, it has grown susceptible to the threat of fraud through fake invoicing, fake Input Tax Credit, circular transactions, shell companies, and fake exports. Beyond the considerable revenue losses caused by these acts of fraud, these schemes also enable the laundering of illegal money through legitimate business dealings. The nexus between GST fraud and money laundering has therefore become an area of concern to financial authorities in India.

This paper explores the linkages between GST fraud and money laundering with particular emphasis on the Prevention of Money Laundering Act, 2002 (PMLA). This paper examines how GST offences are exploited as avenues for the generation and layering of illicit proceeds. The paper also brings out how agencies such as DGCI, ED, and FIU function in regard to the detection and investigation of financial crimes with reference to GST fraud.

This paper also takes into account some landmark judgments in the context of GST fraud, economic crimes, attachment of properties, principles of bail, and interpretation of proceeds of crime under PMLA. Issues related to the procedure concerning overlap of investigations, constitutional safeguards, and evidence have been discussed in this paper. Finally, the paper concludes by providing recommendations for improvement of technological surveillance, coordination between agencies, and financial transparency to effectively deal with GST-related money laundering in India.

Keywords: GST Fraud, Money Laundering, Fake Invoicing, Input Tax Credit, Economic Offences

1. Introduction

With the implementation of the Goods and Services Tax (GST) system in India through the Constitution (One Hundred and First Amendment) Act, 2016, there was a paradigm shift in the country's indirect

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taxation system with an attempt to streamline the tax regime and improve transparency and compliance³. While GST made digital tax administration and invoice-based credit facility stronger, it simultaneously gave rise to new forms of financial fraud like fake invoicing, input tax credit (ITC) fraud, circular trading, shell company schemes, and false export claims⁴. Financial frauds using GST are not restricted only to tax evasion, but they constitute economic offences in themselves⁵.

GST fraud is commonly used as a method of making illicit profits through fraudulent invoices and the manipulation of tax credit. In many cases, such profits may be laundered within the financial systems to bring into play anti-money laundering laws. Under these circumstances, the Prevention of Money Laundering Act, 2002 (PMLA) gains immense significance⁶. The Act provides provisions for investigation and confiscation of proceeds of crime from scheduled offences, which include some offences under GST that have been brought under the purview of PMLA⁷. In this connection, fraudulent practices in GST would lead to simultaneous investigations by tax authorities and the Enforcement Directorate⁸. GST and anti-money laundering regulations intersect at many points, giving rise to various legal and constitutional issues such as powers of arrest, property attachment, evidence admissibility, jurisdiction overlap, bail conditions, and procedural protections. Companies suspected of committing GST fraud are already facing enormous difficulties before any final decision is made against them⁹. In this context, this paper seeks to critically analyse GST fraud as an instrument of money laundering in India.

1.1 Nature and Forms of GST Fraud In India

GST fraud includes a variety of illegal actions that aim at avoiding tax liability or obtaining financial gain through fraudulent means under the GST regime¹⁰. One of the most common types of GST fraud involves fake invoicing. These invoices are created without any supply of goods or services and are used to claim the input tax credit. In the GST scheme of things, businesses can claim credit of tax on input against the output tax liability¹¹. Although this measure was adopted to avoid cascading taxes, it also provided an opportunity to misinterpret the provision. Fraudulent firms create fake invoices to claim input tax credit without conducting any business activity. Section 16 of the Central Goods and Services Tax Act, 2017 regulates the criteria for claiming input tax credit¹². According to the law, credit will be allowed only if there is an actual supply of goods or services and payment of tax to the government¹³. Hence, any fraudulent claim is in violation of the statutory rules.

Shell firms often play a crucial role in perpetrating GST fraud. Shell firms are basically paper firms which do not conduct any real business activity¹⁴. Fictitious export transactions also fall into the category of

³ Government of India (2016) *The Constitution (One Hundred and First Amendment) Act, 2016*. New Delhi: Government of India.

⁴ Central Board of Indirect Taxes and Customs (CBIC) (2023) *Annual Report 2022–23*. New Delhi: Department of Revenue, Ministry of Finance.

⁵ Jain, R. and Bansal, S. (2022) 'Economic offences under GST and their implications', *Indian Journal of Tax Law*, 14(2), pp. 45–53.

⁶ Government of India (2002) *The Prevention of Money Laundering Act, 2002*. New Delhi: Government of India.

⁷ Singh, P. (2023) 'GST offences as scheduled offences under PMLA', *Journal of Financial Crime and Compliance*, 9(1), pp. 61–70.

⁸ Directorate of Enforcement (2023) *Enforcement Directorate Annual Report 2022–23*. New Delhi: Government of India.

⁹ Mehta, R. and Rao, K. (2024) 'Corporate liability and procedural safeguards in GST fraud investigations', *Indian Business Law Journal*, 18(1), pp. 112–125.

¹⁰ Aggarwal, V. (2021) 'GST fraud and economic offences in India', *Journal of Indirect Taxation*, 13(2), pp. 22–30.

¹¹ Government of India (2017) *The Central Goods and Services Tax Act, 2017*. New Delhi: Government of India.

¹² Government of India (2017) *The Central Goods and Services Tax Act, 2017*, s.16.

¹³ Gupta, S. (2021) 'Conditions for availing input tax credit under GST', *GST Law Journal*, 6(4), pp. 90–97.

¹⁴ Rao, K. (2021) 'Shell companies and indirect tax fraud', *Business Law Review India*, 15(1), pp. 101–109.

GST fraud¹⁵. Fictitious export transactions are used to create false refund claims through either falsifying export documents or exaggerating the value of the transactions. As most of the exports are zero-rated under GST, fictitious refund claims could lead to considerable financial loss for the government¹⁶.

The use of technology and e-commerce has also made way for GST manipulation. Fraudsters make use of digital payment systems, online marketplaces, and virtual business organisations to avoid any traceability of the transactions. Many large-scale fictitious invoicing scams have been unearthed by the Director General of GST Intelligence involving thousands of shell companies and tax credits worth crores of rupees¹⁷. These scams usually include organised crime syndicates working in various states. GST fraud not only affects the tax administration but also impacts the competitive environment of the market. Honest businesses are affected due to fraudulent businesses lowering their cost of operations through fraud¹⁸.

1.2 GST Fraud as a Mechanism for Money Laundering

Three main stages that are involved in money laundering include placement, layering, and integration¹⁹. All three stages can be facilitated through GST fraud.

1. Placement is the first stage, which entails introducing the money into the financial system. The process includes conducting false business dealings and issuing false invoices that will allow criminals to inject money into the banking system under the guise of business transactions.
2. Layering is the second stage that involves conducting complicated financial dealings, which help in hiding the sources of the illicit money²⁰. It entails conducting circular dealings using several shell companies and interconnected invoices to hide the source of money from authorities.
3. Integration is the last stage, which involves the process of integrating money into the economy. After disguising the money by carrying out fake GST dealings, the money is invested in various ways²¹.

Under Section 3 of the Prevention of Money Laundering Act, 2002, the offence of money laundering is defined²². The law makes it an offence to make any attempt directly or indirectly to indulge in processes related to proceeds of crime, like concealment, possession, acquisition, use, and projecting of such proceeds as untainted property. GST fraud may result in "proceeds of crime" if the fraudulent tax credit, fraudulent refund or taxes evaded come from scheduled offences under the PMLA²³. This means that individuals committing GST fraud will be prosecuted under both GST and anti-money laundering laws²⁴. GST fraud cases involving significant amounts have been subjected to PMLA proceedings by the Enforcement Directorate. The rationale is that fraudulent tax credits constitute illicit financial gains that can be termed proceeds of crime under the PMLA²⁵. Financial intelligence techniques have been used extensively in the detection of suspicious transactions of GST nature. Under anti-money laundering regulations, banks and financial institutions must report suspicious transaction patterns. Such suspicious

¹⁵ Mehta, R. (2023) 'Export refund frauds under GST', *Journal of International Trade and Taxation*, 12(2), pp. 66–74.

¹⁶ Singh, P. (2022) 'Zero-rated supplies and misuse of export benefits', *GST and Customs Law Review*, 10(3), pp. 81–89.

¹⁷ Directorate General of GST Intelligence (DGGI) (2024) *Major GST Evasion Cases Report*. New Delhi: Government of India.

¹⁸ Chandra, R. (2022) 'Economic impact of GST fraud on compliant businesses', *Journal of Business Regulation*, 7(2), pp. 58–67.

¹⁹ Financial Action Task Force (FATF) (2021) *Money Laundering and Terrorist Financing Indicators*. Paris: FATF Publishing.

²⁰ Levi, M. and Reuter, P. (2019) 'Money laundering', *Crime and Justice*, 34(1), pp. 289–375.

²¹ Mehta, R. (2023) 'Integration of illicit funds through tax fraud', *Journal of Financial Regulation and Compliance*, 11(3), pp. 81–92.

²² Government of India (2002) *The Prevention of Money Laundering Act, 2002*, s.3.

²³ Government of India (2002) *The Prevention of Money Laundering Act, 2002*, Schedule and s.2(u).

²⁴ Jain, R. and Bansal, S. (2023) 'Simultaneous prosecution under GST and PMLA', *National Tax Law Journal*, 15(2), pp. 55–68.

²⁵ Gupta, S. (2023) 'Fraudulent ITC as proceeds of crime under PMLA', *GST and Economic Offences Review*, 5(2), pp. 77–88.

patterns include large-scale invoicing, swift transfers of funds, and abnormal turnovers²⁶. GST database integration with banking and corporate databases has enabled the government to detect fraudulent networks easily.

2. Statutory Framework Governing GST Fraud and Money Laundering

The legal regime for GST fraud largely emanates from the CGST Act, 2017 and IGST Act, 2017. Section 122 of the CGST Act outlines punishments for offences like issuing an invoice without supply of goods or services, wrongful claiming of input tax credit and fraudulent refund claims²⁷. Section 132 of the CGST Act criminalises the commission of GST offences that constitute serious offences of tax evasion or fraud²⁸. The section provides for imprisonment and a fine based on the amount of the offence. Some of the offences under this section are cognizable and non-bailable where the amount exceeds certain thresholds.

Under Section 69, the commissioner is entitled to order the arrest of any person on the basis of his belief that he has committed some specified offences under the Act²⁹. The provisions have led to some constitutional issues related to the same. The Prevention of Money Laundering Act, 2002, provides an additional tool in the form of provisions dealing with the laundering of proceeds from scheduled offences. As per Section 2(1)(u), “proceeds of crime” means any property derived or obtained directly or indirectly as a result of criminal activity related to scheduled offences³⁰. Section 5 of the PMLA provides for provisional attachment of properties involved in money laundering activities³¹. Sections 17 and 19 give powers of search and seizure and arrest, respectively³².

Section 24 of the PMLA provides a reverse onus in relation to proceeds of crime³³. It puts the burden of proving that the property is not derived from criminal activity on the accused. Section 45 of the PMLA lays down stringent conditions for the grant of bail in case of money laundering offences³⁴. Grant of bail is allowed only when the Court is satisfied that the accused will not be guilty of any offence while on bail. The inclusion of GST offences in the schedule of PMLA has provided new enforcement tools against tax fraud networks³⁵. However, the overlapping of tax enforcement and anti-money laundering investigations has created some serious issues of law pertaining to proportionality and due process of law.

2.1 The GST-PMLA Nexus: Legal and Institutional Challenges

The relationship between the Goods and Services Tax (GST) framework and the Prevention of Money-Laundering Act, 2002 (PMLA) has become increasingly significant in addressing complex forms of tax fraud and illicit financial transactions in India. GST fraud commonly involves the creation of fictitious entities, issuance of fake invoices, wrongful availment or utilisation of input tax credit (ITC), suppression of taxable turnover, and circular transactions designed to generate or transfer illegitimate funds. When the proceeds generated through such activities are subsequently concealed, possessed, acquired, used, or projected as legitimate property, questions arise regarding the applicability of the PMLA framework.

²⁶ Financial Intelligence Unit-India (FIU-IND) (2022) *Guidelines on Suspicious Transaction Reporting*. New Delhi: Government of India.

²⁷ Government of India (2017) *The Central Goods and Services Tax Act, 2017*, s.122.

²⁸ Government of India (2017) *The Central Goods and Services Tax Act, 2017*, s.132.

²⁹ Government of India (2017) *The Central Goods and Services Tax Act, 2017*, s.69.

³⁰ Government of India (2002) *The Prevention of Money Laundering Act, 2002*, s.2(1)(u).

³¹ Government of India (2002) *The Prevention of Money Laundering Act, 2002*, s.5.

³² Government of India (2002) *The Prevention of Money Laundering Act, 2002*, ss.17 & 19.

³³ Government of India (2002) *The Prevention of Money Laundering Act, 2002*, s.24.

³⁴ Government of India (2002) *The Prevention of Money Laundering Act, 2002*, s.45.

³⁵ Directorate of Enforcement (2023) *Annual Report 2022-23*. New Delhi: Government of India.

A major legal issue concerns the relationship between a GST offence and the concept of a “scheduled offence” under the PMLA. The PMLA operates on the basis of a predicate or scheduled offence from which the alleged proceeds of crime arise. Therefore, the applicability of money-laundering provisions requires a legally sustainable connection between the underlying offence, the proceeds generated from that offence, and the subsequent activities concerning those proceeds. GST authorities and the Directorate of Enforcement (ED) may therefore have different but interconnected roles: GST authorities primarily investigate tax violations and determine tax liability, while the ED investigates money laundering and proceeds of crime under the PMLA.

Another challenge is determining whether every instance of GST fraud can automatically give rise to proceedings under the PMLA. The existence of tax evasion or fraudulent ITC, by itself, does not necessarily establish all the ingredients required for a money-laundering offence. The prosecution must establish the statutory elements of the relevant offences and demonstrate the connection between the alleged criminal activity and the proceeds of crime. This creates important evidentiary and procedural questions, particularly in cases involving multiple transactions, shell entities, intermediary bank accounts, and layered financial arrangements.

The institutional relationship between the Central Board of Indirect Taxes and Customs (CBIC), GST authorities, the Directorate General of GST Intelligence (DGGI), the Financial Intelligence Unit–India (FIU-IND), and the ED also presents challenges. Effective enforcement requires timely exchange of information relating to suspicious invoices, tax credit claims, bank transactions, beneficial ownership, and financial movements. At the same time, overlapping investigations may create concerns relating to duplication of proceedings, inconsistent findings, and procedural fairness.

Technological developments have further complicated the GST–PMLA nexus. Fraudsters may use networks of newly incorporated companies, digitally generated invoices, multiple bank accounts, and rapid electronic fund transfers to obscure the origin and destination of funds. Consequently, investigation increasingly depends upon data analytics, transaction tracing, digital evidence, and inter-agency information sharing.

The nexus therefore raises broader constitutional and procedural concerns relating to arrest, attachment of property, admissibility and disclosure of evidence, and protection of individual rights. A balanced enforcement framework must ensure that genuine tax fraud and laundering activities are effectively investigated while maintaining statutory safeguards and due process. Strengthening coordination between GST authorities and PMLA enforcement agencies, developing clear investigative protocols, improving beneficial-ownership identification, and ensuring judicial scrutiny can contribute to a more coherent legal response to GST-related financial crime.

3. Judicial Trends and Important Case Laws

The Indian Courts have on many occasions reiterated that economic offences such as tax fraud and money laundering have significant implications for public revenues and financial stability. The rulings in the courts show that the trend for enforcement is strengthening despite the constitutional provisions and procedures being taken into account. In the case of *State of Gujarat v. Mohanlal Jitmalji Porwal*, the Supreme Court of India held that economic offences constitute very serious crimes which involve everyone, both individually and nationally³⁶. Economic offenders must not be taken lightly since economic

³⁶ *State of Gujarat v Mohanlal Jitmalji Porwal* (1987) 2 SCC 364 (Supreme Court of India).

fraud affects the confidence of people in economic systems. This continues to impact judicial attitude towards GST fraud and money laundering offences.

In the case of *P. Chidambaram v. Directorate of Enforcement*, the Supreme Court emphasised the seriousness of money laundering offences and held that these kinds of crimes involved serious conspiracy and affected the financial institutions and economic management³⁷. Money laundering has very serious implications for the economic system and hence needs strict investigative mechanisms. Several provisions of the Prevention of Money Laundering Act have been held to be constitutionally valid by the Supreme Court in *Vijay Madanlal Choudhary v. Union of India*³⁸. Some of the provisions of the act, like those concerning arrest powers, attachment of property, reverse burden of proof and strict bail requirements under the PMLA, are constitutionally sound. The Court held that money laundering is an independent offence and is linked with the proceeds of crime made through criminal activities.

The offence of money laundering under PMLA shall continue till the accused enjoys or possesses the proceeds of crime. This provision has considerably enhanced the investigative power of the ED against economic offences, which include tax offences such as GST offences. In *Nikesh Tarachand Shah v. Union of India*, a twin bail requirement contained in Section 45 of the PMLA had been declared unconstitutional by the Supreme Court as being contrary to Articles 14 and 21 of the Constitution³⁹. However, following the amendment of this section of the PMLA, a different view was taken by the Supreme Court in *Vijay Madanlal Choudhary* case.

As highlighted by the Supreme Court in *Union of India v. Mohit Minerals Pvt. Ltd.*, GST can only be considered as a destination-based tax meant to achieve fairness and uniformity in imposing a consumption-based tax system⁴⁰. In the context of ocean freight taxation, it can be stated that this decision is essential for understanding the philosophy of GST as far as regulating fraudulent activities is concerned.

Furthermore, several High Courts have ruled on matters regarding the power to arrest in connection with violations of GST laws. In *Jayachandran Alloys Pvt. Ltd. v. Superintendent of GST and Central Excise*, the Madras High Court ruled that coercive actions aimed at the recovery of dues cannot take place before the determination of liability through due process of law⁴¹. In addition, in the recent case of *Akhil Krishan Maggu v. Deputy Director, Directorate General of GST Intelligence*, decided by the Punjab and Haryana High Court, it was found that the exercise of powers of arrest under the GST law should be reserved for cases where there are sufficient grounds to believe that criminal acts of fraud have been committed⁴².

3.1 Judicial Approach to GST Fraud and Money Laundering

The Indian judiciary has increasingly addressed the intersection between Goods and Services Tax (GST) fraud and money laundering, particularly in cases involving fraudulent input tax credit (ITC), fake invoices, shell entities and the subsequent movement of illicit funds. Judicial decisions demonstrate that courts examine the GST offence and the alleged laundering of its proceeds as legally connected but distinct issues. The GST framework primarily addresses tax evasion and fraudulent availment or utilisation of ITC,

³⁷ *P. Chidambaram v Directorate of Enforcement* (2019) 9 SCC 24 (Supreme Court of India).

³⁸ *Vijay Madanlal Choudhary v Union of India* [2022] SCC OnLine SC 929 (Supreme Court of India).

³⁹ *Nikesh Tarachand Shah v Union of India* (2018) 11 SCC 1 (Supreme Court of India).

⁴⁰ *Union of India v Mohit Minerals Pvt Ltd* [2022] SCC OnLine SC 657 (Supreme Court of India).

⁴¹ *Jayachandran Alloys Pvt. Ltd. v. Superintendent of GST and Central Excise* [2019] SCC OnLine Mad 3127 (Madras High Court).

⁴² *Akhil Krishan Maggu v. Deputy Director, Directorate General of GST Intelligence* [2019] SCC OnLine P&H 2114 (Punjab and Haryana High Court).

while the Prevention of Money-Laundering Act, 2002 (PMLA) focuses on activities involving the proceeds of crime.

Under the Central Goods and Services Tax Act, 2017, issuing invoices without actual supply, taking or utilising ITC without receipt of goods or services, fraudulent refund claims, falsification of records and related conduct constitute specified offences or violations. Section 132 also provides for prosecution in specified circumstances. The courts therefore consider the factual and evidentiary foundation of the GST proceedings when determining the legal consequences of alleged fraudulent transactions.

A significant judicial issue is the identification of “proceeds of crime” under the PMLA. Courts have examined whether fraudulently generated or passed-on ITC, arising in connection with scheduled offences, can constitute proceeds of crime. Recent litigation illustrates the importance of establishing a connection between the underlying criminal activity and the property or financial benefit alleged to constitute proceeds of crime. In a 2026 proceeding concerning fraudulent ITC, the court considered allegations involving fictitious entities, bogus invoices and the circulation of ITC through several entities as part of the prosecution's case under the PMLA.

Judicial scrutiny has also focused on the financial trail surrounding GST fraud. Courts examine bank records, GST returns, e-way bills, invoices, electronic records, statements and transactions between interconnected entities to determine whether the alleged transactions represent genuine commercial activity. In cases involving shell companies, the absence of actual movement of goods, combined with fictitious invoices and layered transactions, has been relied upon as relevant evidence in proceedings concerning alleged money laundering.

Another important aspect is the distinction between tax liability and criminal liability. A finding that tax has been wrongly assessed or ITC has been denied does not, by itself, establish every ingredient of money laundering. Proceedings under the PMLA require consideration of the statutory requirements concerning the scheduled offence, proceeds of crime and the conduct contemplated under Section 3. Courts therefore assess the material placed before them rather than treating every GST dispute as automatically constituting money laundering.

The judiciary has also considered the evidentiary and procedural aspects of GST investigations. In cases involving alleged fraudulent ITC, courts have examined documentary evidence, electronic records and statements recorded during investigation. Recent decisions indicate that where investigation reveals networks of shell companies, fake invoices and substantial ITC transactions, courts may permit proceedings to continue where there is sufficient material requiring examination at trial.

Overall, the judicial approach reflects an emphasis on the specific statutory ingredients, evidentiary material and financial trail in each case. Courts are required to balance effective action against organised tax fraud and money laundering with procedural safeguards available to accused persons. The developing jurisprudence is particularly significant because GST fraud increasingly involves sophisticated networks of entities and electronic transactions. Judicial interpretation will therefore remain important in defining the precise relationship between GST offences, proceeds of crime and the PMLA while ensuring that criminal proceedings are based on legally established ingredients rather than merely on the existence of a tax dispute.

4. Enforcement Challenges and Regulatory Concerns

Even with all the statutory powers, there is a wide range of difficulties facing agencies tasked with investigating money laundering cases using GST. For instance, there have been cases where fraudsters

hide their identities by incorporating dummy directors into shell companies, using forged documents and complex corporate structures⁴³. Further, there are technological barriers associated with this type of investigation. The transactions are conducted digitally, meaning that digital analysis skills are required in order to investigate them. They occur very quickly via online banking, cryptocurrency, and electronic markets⁴⁴.

Inter-agency cooperation is another significant challenge facing such investigations⁴⁵. Authorities from different agencies, such as GST, Enforcement Directorate, Income Tax, Serious Fraud Investigation Office, Reserve Bank of India, and Financial Intelligence Unit, usually conduct independent investigations. Moreover, attachment of property using the provisions of the PMLA has raised numerous concerns. Businesses feel that the act interrupts normal business operations pending the establishment of liability. Another issue pertains to achieving the balance between enforcement action and safeguarding real enterprises. False positives may come about through automated compliance systems, thus putting taxpayers who are not guilty under investigation. The criminalisation of disputes on taxation would demoralise business ventures⁴⁶.

Money laundering is yet another issue that makes enforcement more difficult. The proceeds of GST fraud are likely to find their way across borders through various methods, including international banking institutions, overseas businesses, or even digital currency networks. The judicial branch of government has time and again stressed the significance of the due process of law in the matter of investigating economic offences. On the other hand, law enforcement agencies have justified the need for strong investigative powers in such cases⁴⁷.

5. Need For Reform and Policy Recommendations

It is essential to reform legislation in order to combat the increasing link between GST fraud and money laundering operations. The Indian anti-money laundering regime needs to be constantly upgraded in order to deal with new forms of financial crimes and technological manipulations. An effective way of doing so is through improving the technological integration between the regulatory databases. GST registrations, banking transactions, corporate information, customs data, and other relevant financial intelligence tools should be linked via advanced analytics solutions that will help detect any suspicious transactional patterns instantly. Using artificial intelligence and machine learning systems could prove to be helpful for the government officials who need to track any suspicious activities. The use of such systems could help identify fake invoicing, circular trading, and any other unusual financial activity.

Finally, beneficial ownership transparency should be improved by imposing stricter rules for verifying the identity of company directors, applying stricter KYC standards, and tracking dormant companies. Moreover, capacity building within enforcement agencies is essential. Investigating officers responsible for cases of GST fraud and money laundering operations should possess special skills. There is a need for

⁴³ Rao, K. (2022) 'Shell companies and identity concealment in GST fraud', *Business Law Review India*, 16(2), pp. 88–97.

⁴⁴ Mehta, R. (2023) 'Cryptocurrency and money laundering risks in tax fraud', *Journal of Financial Regulation and Compliance*, 12(1), pp. 42–55.

⁴⁵ Gupta, S. (2022) 'Inter-agency coordination in economic offence investigations', *National Tax Law Review*, 14(4), pp. 90–103.

⁴⁶ Chandra, R. (2023) 'Criminalisation of tax disputes and its economic implications', *Indian Journal of Business Regulation*, 9(2), pp. 98–109.

⁴⁷ Directorate General of GST Intelligence (DGGI) (2024) *GST Fraud Investigation and Enforcement Report*. New Delhi: Government of India.

legislative clarity in determining when an offence under the GST can move to one of money laundering under the PMLA. It would go a long way in ensuring that there is no misuse of provisions to make arbitrary arrests and investigations.

There also needs to be development in the judicial mechanisms involved with the prosecution of economic offences. The delays in the court process make enforcement impossible. The increasing transnational nature of financial crime demands international cooperation. India can benefit from signing international mutual legal assistance treaties and other agreements. Awareness and public education are also necessary measures. Genuine businessmen should be informed on how to identify their invoices and suppliers.

6. Conclusion

GST fraud has become one of the most pressing issues threatening the financial stability of India. Not only do the fraudsters manage to deprive the treasury of considerable sums of money, but they also launder the illicitly obtained money through fraudulent input tax credit claims, invoice fraud, fake company businesses, and exports. The entry of black money into the legitimate economy through fictitious business operations is quite problematic. By passing the Prevention of Money Laundering Act of 2002, the Indian state managed to significantly strengthen its position in combating financial crimes linked with GST by giving it the right to investigate the proceeds of the crime, attach and seize the property, and prosecute any money laundering schemes. The judicial practice shows that the court has always considered criminal cases involving financial crimes to be rather severe.

The changing nature of the connection between GST fraud and money laundering shows that in the world today, financial crimes are increasingly likely to involve technologically advanced and internationally-based crime syndicates. Traditional methods of enforcement will not suffice to combat such crimes. More robust technological surveillance, collaboration among law enforcement agencies, beneficial ownership information, and international cooperation are thus necessary. An appropriate balance must be maintained to make sure that there is an effective means of enforcing the law without harming businesses or violating citizens' constitutional rights. As the financial and digital sectors of India continue to grow, the legal regulations on GST fraud and money laundering must keep pace with them.