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CORPORATE RESTRUCTURING UNDER FRAUD ALLEGATIONS: EVALUATING TAX EVASION, ACQUISITION LAYERING, AND LIQUIDATION WITHIN THE INSOLVENCY AND BANKRUPTCY CODE

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ABSTRACT

This paper explores how distressed companies use corporate restructuring to hide financial fraud. It examines the dark intersection where companies use complex acquisition layers and strategic liquidations under the Insolvency and Bankruptcy Code (IBC) to evade taxes and cheat creditors. By looking at how India's tax laws and insolvency rules clash, the study highlights how corporate wrongdoers abuse legal loopholes to erase their financial crimes. Ultimately, it analyzes how courts and regulators are tightening rules to stop corporate restructuring from being used as a shield against fraud.

THEORETICAL FRAMEWORK ANALYSIS

Corporate restructuring under fraud allegations generally occurs under three situations: tax claim leakage, acquisition or group layering that obscures liability, and liquidation-stage asset diversion. Under the IBC, restructuring and liquidation are the last resort, and the company is aimed at revival.

In several instances, such as the Satyam scandal, Satyam Computers was not liquidated; instead, it was acquired by Tech Mahindra, displaying how the Insolvency and Bankruptcy Code framework seeks to prioritize corporate survival through strategic acquisition over the terminal process of liquidation[1].

However, when an Enron-type fraud arises, it becomes very difficult to revive the company; in such instances, the regulatory mechanism moves from restoration to the Insolvency and Bankruptcy Code.

Modern insolvency systems rely on transaction-avoidance rules and harmonized stakeholder protection. This is so because distressed firms operate in interconnected settings where asset shifts and cross-border structuring complicate enforcement[2].

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[1] Binoy & Islamov, 2021; Choubey & Gupta, 2025.
[2] Vaccari, Corporate Insolvency Law: A Comparative Textbook (2nd ed.), available at https://consensus.app/papers/corporate-insolvency-law-a-comparative-textbook-2nd-vaccari/74454b09b4c4578bbcd21ef369b89e12/.

MECHANISMS OF CORPORATE FRAUD

The mechanism of corporate fraud relies on exploiting gaps in internal controls, which is why the work of internal auditors, and especially external auditors, becomes very crucial in identifying those gaps and reporting them to management. They also manipulate financial records and abuse legal and structural loopholes to divert company money into personal hands.

(1) Financial Document Manipulation – This involves manipulation of financial documents to inflate the financial health of a company. It is done either with a motive to secure additional debt or to raise funds from investors.

- Revenue Recognition – This involves billing unwanted goods to customers or creating fictitious sales receipts or bills receivable to inflate sales.
- Capitalising Expenses – Recording routine operating expenses to the Assets account to hide costs and increase profits.
- Cookie Jar Reserves – This involves hiding higher profits during good years and utilising them during weaker years to show consistent profits and to establish an image as a blue-chip company.

(2) Asset Misappropriation and Siphoning – This involves taking company cash or assets out of the Balance Sheet into private accounts.

- Fake Vendor Schemes – Creating a ghost company as a vendor and submitting fake invoices for consulting or other allied services, and approving payments into accounts owned and controlled by the fraudsters.
- Circular Trading – This involves a company selling goods to another company and getting it back after two or three transactions, such that Company A sells to B, B sells to C, C sells to D, and D sells it back again to A. No real business occurs; it merely inflates revenues artificially.
- Related Party Transactions – This involves selling valuable corporate assets to relatives of a director, or to connected shell entities, at a lower or heavily discounted price.

(3) Structural and Corporate Layering – In structural and corporate layering, fraudsters build complex corporate labyrinths to prevent investigating departments from checking the trail of money.

- Shell Companies: These are bogus or false companies that are created just to transfer funds and have no physical existence; they exist only on paper.
- Multi-Jurisdictional Routing: It is moving funds across international borders to prevent domestic police or investigating agencies from tracking illicit capital flows through complex, multi-layered entities [3]. They move funds across international borders, specifically targeting countries with strict banking secrecy laws or lax tax enforcement, making it legally difficult for domestic police to investigate the matter.

(4) Bribes and Kickbacks: This involves corrupting the procurement or sales process for personal enrichment.

[3] Reurink, 2018, p. 1304.

• Vendor Kickbacks: A purchasing manager awards a supply contract to a vendor who charges inflated prices. In return, the vendor secretly gives a percentage of the profit back to the manager.

• Bid Rigging: Colluding with external contractors to fix prices during a corporate bidding process, ensuring a specific company wins the project at an inflated cost.

(5) Control Overrides (The Human Element)

For large-scale fraud to work, perpetrators must bypass internal checks and balances.

• Management Override: Senior executives use their authority to force junior accountants to sign off on irregular transactions or to bypass automated software alerts.

• Collusion: Many employees from different departments join hands together to collude in fraud and commit fraudulent activities together[4].

ACQUISITION LAYERING TACTICS

Acquisition layering is basically the ultimate game of corporate hide-and-seek. It is how shady business owners take dirty, stolen money and pass it through a maze of purchases and deals until it looks totally clean.

Here is exactly how they pull it off using everyday tricks.

1. The Fake Trading Loop

Instead of moving actual cash, companies just trade pieces of themselves to look rich.

• The trick: Company A buys stock in Company B. Company B takes that money and buys stock in Company C. Then, Company C turns around and buys stock back in Company A.

• The result: No real money ever enters the loop. But on paper, all three companies suddenly look super successful because they "own" each other. The dirty cash gets completely lost in the mix[5].

2. Buying Overpriced "Ghost" Tech

Fraudsters love using things like software, logos, or patents because nobody can really agree on what they are actually worth.

• The trick: A shady owner sets up a secret side company that creates a totally useless app. Then, their main big company "buys" that app for millions of dollars.

• The result: On paper, it just looks like a normal business investing in technology. In reality, millions of dollars are legally moved out of the main business and land right into the side company's bank account as "clean" profit[6].

3. The Endless Paper Trail

To hide who actually owns the cash, fraudsters build a chain of fake companies that fit inside each other like Russian nesting dolls.

[4] Suryandari et al., 2023, p. 184.
[5] Butvinik et al., 2025, p. 11.
[6] Custers et al., 2018, p. 734.

• The trick: They set up Company A in one country, which is owned by Company B in another country, which is owned by Company C somewhere else.

• The result: At the very end of the chain, they pay random people or lawyers to put their names on the paperwork. If investigators try to track the money, they just hit a massive wall of dead ends and fake owners[7].

4. Turning Fake Loans Into Company Shares

This is a super sneaky way to turn a fake debt into actual, legal ownership of a business.

• The trick: A secret side company gives a fake loan to the main business. Later, the main business pretends it cannot pay the money back.

• The result: Instead of panicking, the main company says, "Hey, we can't pay you cash, so we will give you a massive chunk of our actual company stock instead." Now, the dirty money that started as a fake loan is transformed into clean, official corporate shares.

5. Splitting One Big Deal Into Tiny Ones

Moving $50 million in one go instantly sets off bank alarms and gets the government's attention.

• The trick: Instead of buying one massive company, the fraudster has their business buy 50 tiny, random startups for $1 million each.

• The result: These small payments fly completely under the radar. Once the money is safely split up into those 50 tiny accounts, it gets quietly moved and pooled back together into a single offshore account[8].

TAX EVASION PATTERNS

There is usually a pattern through which corporates try to save money that would otherwise flow to the government, before initially filing for bankruptcy. They usually rely on a few classic patterns to pull it off.

1. The Fake Invoice Loop (Fake Input Tax Credit)

A company creates a few shell companies that exist only on paper and then issues fake sale invoices in their name, thus claiming fake ITC even when there is no sale at all. The main company uses these fake receipts to claim massive tax refunds and write-offs from the government. They are getting actual cash back for transactions that never happened[9].

2. The Invisible Trade Loop

This pattern is used to blow up a company's numbers like a balloon right before it bursts.

The trick: Company A sells a batch of invisible products to Company B. Company B sells it to Company C. Company C sells it right back to Company A.

The goal: Nothing is actually made or shipped, but the accounting books look incredibly busy. This fake traffic allows them to hide illegal cash inside the loop and trick banks into giving them massive loans.

[7] Pacini et al., 2018.
[8] Butvinik et al., 2025, p. 11.
[9] Buettner & Tassi, 2023, p. 852; Carrillo et al., 2022, p. 3.

3. Deleting Real Sales

This is the corporate version of working under the table, just done on a massive scale.

The trick: The company simply hides its real income. They might delete sales records from their computers, take cash-only deals, or lie and say they sold their products for a fraction of the actual price.

The goal: If the government thinks the company barely sold anything, the official profits look tiny. Since tax is calculated on profit, their tax bill drops to zero.

4. Overpricing Everything

Instead of hiding the money coming in, this pattern is all about faking the money going out.

The trick: The bosses start writing off their personal luxury lifestyles as business costs. Private jets, family vacations, and mansions get listed as “corporate retreats.” They also pay huge “fees” to offshore accounts they secretly control.

The goal: It makes a super successful company look like it is totally broke on paper. When they eventually go to bankruptcy court, they can point to these massive “costs” to prove they have no money left.

INSOLVENCY CODE ENFORCEMENT

The Insolvency and Bankruptcy Code was introduced to clean up a massive mess in the financial world. For decades, when a large company defaulted on its loans, the process of recovering that money was an absolute nightmare. Lenders had to fight through different courts, navigate conflicting laws, and wait years just to get a fraction of their money back. Meanwhile, the owners of the failing company usually stayed in control, enjoying their wealthy lifestyles while the business rotted from the inside. The insolvency code changed the entire power dynamic by giving lenders a quick, legal way to take over a company if it fails to pay its bills[10].

At its core, the code operates on a strict timeline. The moment a company misses a payment above a certain financial threshold, either the lender or the company itself can file a petition to start the insolvency process. This request goes before a specialized corporate court. The court's job isn't to punish anyone immediately, but rather to see if the business can be saved or if it needs to be shut down and sold off[11].

Once the court accepts the case, the most dramatic shift in the entire mechanism happens instantly. The existing management and the original owners are completely stripped of their power. They are kicked out of the driver's seat. In their place, the court appoints an independent professional, usually called a resolution professional, to take over the daily operations of the company. This step is crucial because it stops fraudulent owners from asset stripping, destroying evidence, or shifting money to hidden accounts. The professional acts as a neutral caretaker, keeping the factory doors open, paying the workers, and ensuring the business doesn't lose value while everyone figures out what to do next.

While the caretaker runs the shop, all the banks and financial institutions that lent money to the company come together to form a committee. This committee of creditors holds all the real power. They get to vote on every major decision. Their primary mission is to find a

[10] Available at https://blog.ipleaders.in.
[11] Available at https://ibclaw.in.

saviour for the company. They invite outside investors, rival businesses, or turnaround funds to submit bids to buy and run the failing business. These bids are called resolution plans. The banks review these plans to see who is offering the best price and the most sustainable strategy to revive the company[12].

To keep things moving, the code enforces a strict clock. The entire search for a buyer must ideally be wrapped up within a specific number of days, usually around half a year, though extensions are sometimes granted for incredibly complex cases. If the committee of creditors approves a plan by a significant majority vote, and the court signs off on it, the company is handed over to the new buyer. The old debts are restructured, meaning the banks take a partial loss but get some cash back, and the company gets a fresh start under honest management.

However, if the clock runs out and nobody wants to buy the company, or if the bids submitted are wholly inadequate, the case automatically moves to the final stage, which is liquidation. This is the corporate equivalent of a death sentence. The caretaker transforms into a liquidator, whose sole job is to break the company apart. The factories, real estate, office computers, and intellectual property are all put up for auction. The cash raised from this massive sale is then distributed among everyone the company owed money to, following a strict legal hierarchy where secured lenders and workers get paid first, and the government and ordinary shareholders get whatever scraps are left.

Enforcing this code is not just a smooth administrative routine; it is a constant legal battleground. When the law was first implemented, powerful corporate owners did everything they could to fight back. They filed endless appeals, challenged the constitutional validity of the law, and tried to use front companies to buy back their own businesses at a discount. To stop this, the government had to add strict eligibility rules. One of the most famous rules dictates that if you are a wilful defaulter, or if you played a part in mismanaging the company into the ground, you are completely barred from bidding for your own business during the auction. You cannot cause a fire just to buy the burned-down house for cheap[13].

Another massive challenge in enforcement is dealing with hidden corporate fraud. As we looked at with acquisition layering and tax evasion, shady executives often leave behind a financial crime scene. When the resolution professional takes over, they often bring in teams of forensic auditors. These auditors dig through years of deleted emails, server backups, and bank statements to find out where the money went. If they find that the owners secretly gave away company property to their relatives or paid fake vendors right before going bankrupt, the law allows the court to reverse those transactions. The court can literally order the money to be pulled back into the company's accounts so it can be paid to the actual lenders.

The intersection of insolvency enforcement with criminal law is where things get truly intense. For a long time, there was a fierce debate about what happens when a company's assets are seized by anti-money laundering police at the same time the insolvency court is trying to sell them. The law eventually clarified a very important distinction. To protect innocent new buyers, the physical company and its assets are given a clean slate once a new rescue plan is approved. The new owner cannot be harassed for the crimes of the previous bosses. However, this clean slate does not protect the individuals who committed the fraud. The police can still hunt down the original directors, freeze their personal bank accounts, seize their private mansions, and put them in prison.

[12] Available at https://www.iasgyan.in; https://www.taxmann.com.
[13] Available at https://bodheeprep.com.

Ultimately, enforcing the insolvency code is about creating balance in the economy. Before this law existed, the system heavily favoured rich borrowers who could default on loans with zero consequences, leaving banks burdened with bad debts. Today, enforcement acts as a strict disciplinary tool. It sends a clear message to the corporate world that if you run a business poorly or try to cheat your lenders, you will lose your company, your reputation, and potentially your freedom. It keeps the financial ecosystem clean by quickly recycling dead or fraudulent businesses back into the economy under better leadership[14].

LIQUIDATION AND ASSET RECOVERY

When a company cannot be saved by outside buyers, the court hits the panic button and orders liquidation. This is the absolute end of the line for the business, transforming the rescue mission into a massive sale designed to recover cash for the people who are owed money.

An independent liquidator steps in, locks the doors, and takes control of everything the company owns — from massive factories and land to office laptops and brand logos. Their single goal is to sell these assets as fast as possible to get the highest market value[15].

Once the assets are turned into cash, the liquidator distributes the money using a strict legal priority line called the waterfall mechanism under Section 53 of the Insolvency and Bankruptcy Code (IBC). The liquidator pays the workers' unpaid wages and secured banks first. Government tax dues and ordinary shareholders are left at the very back of the line to take whatever scraps remain[16].

If previous bosses secretly hid company assets or gave them away right before going broke, the liquidator has the power to reverse those transactions under IBC Sections 43 and 45, forcing the diverted wealth back into the pool to ensure creditors are fairly paid[17].

REGULATORY POLICY EVALUATION

Evaluating how the government's rules handle bankruptcy and corporate fraud is basically like checking the structural integrity of a shield. One wants to see if the law is actually protecting the economy, or if clever scammers are finding cracks to slip through. When we look closely at how the Insolvency and Bankruptcy Code (IBC) deals with messy issues like tax evasion and hidden assets, we find a mix of major wins and frustrating roadblocks.

To start with the good news, the policy completely flipped the power dynamic in the business world. Before these rules came along, a billionaire boss could simply refuse to pay back their bank loans, skip out on taxes, and still keep driving luxury cars while their company went completely broke. The current regulatory policy put an end to that comfort. The second a company defaults, the owners lose their keys, and an independent outsider takes over. Even better, the policy introduced a strict gatekeeping rule known as Section 29A. This rule effectively tells crooked owners that if they intentionally tanked their business or cheated the system, they are completely banned from bidding to buy their company back at a discount during the court auction.

Another huge policy success is how the law protects honest buyers. If you are an innocent investor wanting to buy a struggling factory out of bankruptcy, you don't want the tax

[14] Available at https://acegptuition.sg; https://pwonlyias.com.
[15] Available at https://ijrpr.com/uploads/V6ISSUE11/IJRPR55622.pdf.
[16] Available at https://ca2013.com/section-53-distribution-assets/.
[17] Available at https://ijrpr.com/uploads/V6ISSUE11/IJRPR55622.pdf.

department or the police knocking on your door the next day because the old boss was running a massive fraud scheme. The policy created a legal shield called Section 32A, which gives the physical business a completely clean slate. Once a clean buyer takes over, the company's assets cannot be seized for the old management's crimes. This keeps businesses attractive and saves thousands of ordinary jobs. According to an extensive legal review by Vinayak Tiwari on IBC Laws[18], this protective shield is vital for reviving broken companies, ensuring that the physical property can be sold to recover money while the actual fraudsters are hunted down separately by criminal agencies.

However, the policy is far from perfect, and evaluated objectively, it has some massive blind spots. The biggest issue is time. The entire law was built on the promise of speed, intending for bankruptcies to be completely wrapped up in less than a year. In reality, wealthy fraudsters hire armies of corporate lawyers to file endless appeals, stretching cases out for years. While the lawyers fight in court, the company's machinery rusts, its technology becomes obsolete, and its actual value plummets.

Even worse, the policy often acts too late. By the time a fraudulent company is finally dragged into bankruptcy court, the owners have usually finished their complex acquisition layering. They have already funnelled the cash through offshore shells, leaving behind nothing but an empty building and massive debts. When the liquidator tries to sell what is left, banks often end up recovering only pennies on the dollar. As detailed in a comprehensive structural analysis on iPleaders[19], when a company collapses completely, the financial fallout hits the smallest players the hardest, leaving tax departments and ordinary suppliers at the very back of the payment line to fight over whatever scraps remain.

Ultimately, evaluating this policy shows that while the legal framework is incredibly strong on paper, it is stuck in a constant game of cat-and-mouse. To truly fix the system, regulators need to stop reacting after the damage is done. They need to equip courts with faster timelines and use advanced digital tracking to spot tax evasion and fake transactions the moment they happen, rather than trying to clean up a corporate crime scene years later.

CONCLUSION

To bring everything together, we have to look at this entire journey — from the initial spark of a boardroom crime to the final hammer of a bankruptcy court — as one single, connected story. When a company decides to pull the ultimate corporate scam, they aren't just breaking one rule; they are running an interconnected pipeline designed to steal money, wash it clean, and use the government's own legal systems to get away with it. To mitigate these systemic risks, legislative reforms must mandate the real-time synchronization of databases between the Income Tax Department and the Insolvency and Bankruptcy Board of India, enabling authorities to flag suspicious inter-company transfers before insolvency triggers[20].

The story always starts with the temptation of quick, illegal wealth, usually driven by classic tax evasion patterns. Shady corporate bosses begin by creating fake receipts from ghost vendors or running transactions completely off the books. The goal here is simple: hide their real profits so they can pocket millions of dollars that should have gone to public funds. But leaving that stolen cash sitting in a main company account is a massive risk. This is where acquisition layering tactics come into play. The fraudsters launch a highly calculated game of corporate hide-and-seek. They move the illicit cash through an endless maze of shell

[18] Available at https://ibclaw.in.
[19] Available at https://blog.ipleaders.in.
[20] Maniar & Varashti, 2025; Vyas, 2024.

companies, purchase overvalued tech patents that don't actually exist, and trade fake shares in circles across different international tax havens. By the time they are done, the dirty tax-evaded money looks like completely legitimate corporate investments.

Eventually, the weight of the fraud or massive unpaid loans catches up to the business, and the company starts to sink. Instead of panicking, the fraudsters turn to the Insolvency and Bankruptcy Code (IBC), attempting to use a system meant for honest, failing businesses as a get-out-of-jail-free card. They intentionally trigger the insolvency process, hoping that under the protection of a court-ordered freeze on lawsuits, they can quietly push the business into liquidation and asset recovery. Their ultimate dream is the corporate "clean slate" — a legal loophole where they hope the old company dies, its massive tax debts vanish, and they can secretly use their hidden, layered cash to buy the physical assets back at a steep discount through a front-man.

This is where the true test of insolvency code enforcement and regulatory policy evaluation happens. The entire system is forced to become a financial detective. As emphasized in the legal analysis on IBC Laws[21], the law has had to adapt aggressively to stop this abuse. Enforcement teams and forensic auditors now aggressively use weapons like Section 29A to permanently ban crooked owners from bidding on their own ruined companies. They use "look-back" rules to dig into past transactions, tear down the walls of shell companies, and drag hidden assets back into the light.

However, as we evaluate these regulations, it is clear that a massive battle is still being fought. While the law is brilliant at protecting innocent new buyers and saving worker jobs by giving the physical business a clean start, the process is still plagued by agonizing court delays. These delays give scammers extra time to finish hiding their tracks. Furthermore, as detailed by bankruptcy experts on iPleaders[22], when a heavily defrauded company is forced to liquidate, the remaining assets are often just hollowed-out shells, leaving ordinary suppliers and the tax department to recover only tiny fractions of what they are owed.

Ultimately, the overall conclusion of this corporate saga is that bankruptcy can no longer be used as a laundromat for financial crimes. The mechanism of corporate fraud is highly sophisticated, but the legal framework is catching up. The survival of a clean economy depends on regulators closing the final loopholes — speeding up court timelines and stopping acquisition layering before the money leaves the country. The physical company might get a fresh start to save jobs, but for the actual human beings who pulled the strings, the law ensures that their corporate shield is shattered, leaving them personally liable and facing serious prison time.

Building on this evaluation, the real-world friction between different government departments exposes just how fragile the entire enforcement system can be when up against a highly coordinated corporate scam. When a company uses tax evasion and acquisition layering, they aren't just breaking bankruptcy laws; they are violating tax codes, corporate regulations, and anti-money laundering statutes simultaneously. This creates a massive traffic jam in the legal system. For instance, while the insolvency court is trying to move quickly to sell a company's factories to pay back retail lenders, criminal enforcement agencies might swoop in and lock down those exact same properties, branding them as the physical proceeds of a corporate crime.

[21] Available at https://ibclaw.in.
[22] Available at https://blog.ipleaders.in.

This specific gridlock highlights a major structural flaw in how we evaluate economic policy. If the law freezes a company's assets indefinitely during a criminal investigation, the business completely dies, equipment rots, and thousands of innocent workers lose their livelihoods. Conversely, if the insolvency court sells the assets too quickly without a deep forensic audit, the hidden trail of layered cash might be permanently erased, allowing the mastermind bosses to walk away wealthy and completely unpunished. According to insights shared on IBC Laws[23], striking a perfect balance between protecting the integrity of a business resolution and aggressively punishing criminal money laundering remains one of the toughest challenges regulators face today. The system must learn to separate the physical entity from the corrupt individuals who ran it.

To truly fix this and protect the economic ecosystem, the future of regulatory policy cannot just rely on cleaning up a corporate crime scene after the company has already collapsed. It requires a massive shift toward real-time, proactive enforcement. Financial regulators and tax departments must integrate their digital networks, using live tracking software to flag suspicious financial transactions — like a sudden surge of multimillion-dollar invoices for vague consulting services or circular share trading loops — the moment they happen.

When a fraudulent corporate pipeline is dismantled early, the assets are preserved, tax leakages are plugged, and the company never has to face the tragic death sentence of a court-ordered liquidation. As highlighted in structural studies on iPleaders[24], a bankruptcy system is only truly successful if it maximizes the value of what is left and ensures fair play for everyone involved, rather than leaving empty pockets for everyday suppliers. Ultimately, by turning the insolvency code into a fast, transparent, and reliable shield, the economic system sends a definitive warning to the corporate world: your business can always be rescued from honest market failures, but it will never be a safe haven for fraud.

[23] Available at https://ibclaw.in.
[24] Available at https://blog.ipleaders.in.