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Levin, Grassley, Feinstein, Harkin Introduce Bill to Combat U.S. Corporations with Hidden Owners

WASHINGTON – Sen. Carl Levin, D-Mich., chairman of the Permanent Subcommittee on Investigations, and Sen. Chuck Grassley, R-Iowa, ranking member of the Senate Judiciary Committee, together with Senators Dianne Feinstein, D-Calif., and Tom Harkin, D-Iowa, are introducing the [Incorporation Transparency and Law Enforcement Assistance Act](#) today to combat acts of terrorism, money laundering, tax evasion, and other wrongdoing facilitated by U.S. corporations with hidden owners. The bill would end the practice of the 50 states forming corporations for unidentified persons, and instead require the states to obtain the identities of the persons behind the corporations formed under their laws.

“Today, it takes more information to obtain a driver’s license or open a U.S. bank account than it does to form a U.S. corporation,” said Levin. “Our states don’t require anyone to name the owners of the corporations being formed under their laws, and the United States is currently one of the world’s biggest offenders in terms of creating corporations with hidden owners. In June, President Obama stood with other international leaders at a G8 summit to condemn corporations with hidden owners who commit crimes, tax evasion, and other wrongdoing. The G8 leaders made a joint commitment to combat that problem. If the United States wants to maintain its leadership and credibility on ending tax avoidance and corporate secrecy in tax havens, we need to get our own house in order. We also need to listen to the law enforcement community that supports this legislation and has been urging us for years to put an end to corporate secrecy used to hide criminal conduct.”

“Prosecutors of financial crimes follow the money,” Senator Grassley said. “It’s hard for them to do that when the owners of shell corporations are able to hide their identities so easily. Setting consequences for submitting false ownership information would help law enforcement by imposing a hardship on the Ponzi schemers, money launderers and tax cheats who use shell corporations to conceal their fraud.”

Senator Feinstein said, “It is far too easy for criminals and drug traffickers to hide behind anonymous shell corporations. To make a real dent in combating money laundering, it is essential that law enforcement know the identity of the actual owners of corporations. This bill is an important tool in starving criminal organizations of illicit profits.”

“This long-overdue requirement will shine the light on who actually owns corporations incorporated in the United States,” said Senator Harkin. “This simple, common-sense legislation will bring much needed transparency into the system so that law enforcement can better prevent tax evasion, money laundering, terrorist financing, and other criminal activities conducted through currently untraceable businesses and bring perpetrators of these activities to justice.”

The United States forms almost two million corporations and limited liability companies (LLCs) each year, more than the rest of the world combined, and does so without asking for the identity of the owners. The Levin-Grassley-Feinstein-Harkin bill would require the states to add a single question to their existing incorporation forms requesting the names of the natural persons -- the beneficial owners -- behind the corporations being formed. States would not be required to verify the information, but penalties would apply to persons who submit false information. Law enforcement would be given access to the information upon presentation of a subpoena or summons. Corporations bidding on federal contracts would have to provide the same beneficial ownership information to the federal government to ensure the United States knows with whom it is doing business. Regulated corporations whose ownership is already known, including publicly traded corporations, banks, and securities firms, would be exempt from the disclosure requirement.

The bill is supported by law enforcement groups including the Federal Law Enforcement Officers Association, Fraternal Order of Police, Society of Former Special Agents of the Federal Bureau of Investigation, and National Association of Assistant United States Attorneys, as well as by Manhattan District Attorney Cyrus Vance. In addition, it is endorsed by business and public interest groups, including the Main Street Alliance, American Sustainable Business Council, National Money Transmitters Association, AFL-CIO, SEIU, Global Financial Integrity, Global Witness, U.S. Public Interest Research Group, Transparency International, Public Citizen, Project on Government Oversight, Jubilee USA Network, Tax Justice Network USA, Human Rights Watch, Friends of the Earth, Open Society Policy Center, Revenue Watch Institute, the FACT Coalition, and more.

This is the fourth Congress in which the bill has been introduced. When the bill was introduced the first time in 2008, and he was a member of the U.S. Senate, President Obama was an original cosponsor. The passage of the bill has gained new urgency since the June G8 summit when the G8 leaders made this issue a top priority, and President Obama issued an action plan committing to tackle the problem this year.

Examples of how U.S. corporations have been misused include the following.

- Viktor Bout, an arms trafficker found guilty in 2011 for conspiring to kill U.S. nationals and selling weapons to a terrorist organization, used shell companies around the world in his work, including a dozen formed in Texas, Delaware, and Florida.
- Victor Kaganov, a former Russian military officer who ran an illegal money transmitter business from his home in Oregon, pled guilty in 2011 to using Oregon shell companies to wire more than \$150 million to other countries on behalf of Russian clients.

- In June 2011, over two thousand U.S. shell corporations formed for unidentified persons by Wyoming Corporate Services shared the same address at a small house in Cheyenne, Wyoming, including a corporation controlled by a former Ukrainian Prime Minister convicted of money laundering and extortion; a corporation indicted for helping online-poker operators evade a U.S. ban on Internet gambling; and two corporations barred from U.S. federal contracting for selling counterfeit truck parts to the Pentagon. The Wyoming Corporate Services website stated: “A corporation is a legal person created by state statute that can be used as a fall guy, a servant, a good friend or a decoy. A person you control ... yet cannot be held accountable for its actions. Imagine the possibilities!”
- In 2010, Michael Huarte was convicted of health care fraud and received a sentence of 22 years for forming 29 shell companies in such as states as Florida, Georgia, and Louisiana and using them to bilk Medicare out of more than \$50 million.
- In 2010, Florida attorney Scott Rothstein pled guilty to fraud and money laundering in a \$1.2 billion Ponzi investment scheme, in which he used 85 U.S. limited liability companies to conceal his participation or ownership stake in various business ventures.
- In 2005, the Immigration and Customs Enforcement (ICE) division of the Department of Homeland Security (DHS) closed an investigation into 800 U.S. shell corporations in Utah and most of the other 50 states, all of which were associated with a group of companies in Panama and raised concerns about tax fraud and other wrongdoing, due to ICE’s inability to identify any natural person who owned any of the shell corporations.

The bill would not only help law enforcement combat wrongdoing, it would bring the United States into compliance with international standards issued by the Financial Action Task Force on Money Laundering requiring countries to obtain beneficial ownership information for the corporations they form. It would also make U.S. domestic practices consistent with U.S. foreign policy.

“The fact that we have corporate secrecy right here in our backyard contradicts U.S. efforts to end corporate secrecy offshore,” said Levin. “All over the world, people are standing up and speaking out against shell corporations with hidden owners being used to commit wrongdoing. It is time Congress acted to ensure transparency, rather than secrecy, in the formation of U.S. corporations.”

A [summary of the bill](#) and the [bill text](#) are available online.