



CITIZENS FOR  
RESPONSIBILITY &  
ETHICS IN WASHINGTON

**Testimony Submitted for the Record, House Committee on Small Business,  
“Under the Microscope: Examining FinCEN’s Implementation of the Corporate  
Transparency Act”**

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Chairman Williams, Ranking Member Velázquez, and members of the Committee, thank you for the opportunity to submit testimony on the importance of ensuring the full implementation of the Corporate Transparency Act (“CTA”), the country’s landmark anti-corruption legislation.

My name is Gabe Lezra and I am the Federal Policy Manager and Senior Counsel at Citizens for Responsibility and Ethics in Washington (“CREW”), a nonpartisan anti-corruption and good government watchdog organization. It is CREW’s mission to ensure that our government uses its authority to truly benefit the public—including by fighting corruption, and stopping corrupt actors from abusing our financial and legal system to hide ill-gotten gains on American soil. I submit this testimony on behalf of CREW to encourage you to reaffirm your commitment to protecting and supporting the country’s legitimate small businesses by continuing the fight to develop a truly state of the art anti-corruption regime.

In the years since Congress passed the CTA, the Financial Crimes Enforcement Network (“FinCEN”) has begun the process of completely rebuilding the country’s anti-corruption regulatory regime. This hearing is an important opportunity to ensure that FinCEN continues to implement the CTA faithfully and comprehensively as it finalizes additional elements of that regulatory structure. This process is at a critical juncture. FinCEN has completed a number of the required implementing regulations and is now pivoting towards ensuring that the first-ever U.S. beneficial ownership registry comes online. This step must be completed. So while implementation of the CTA has presented and will present difficulties, we encourage you to continue to make good on your commitment to fighting corruption and protecting our small businesses by ensuring that FinCEN has the tools and resources to faithfully implement Congress’s vision for the CTA. Such efforts will benefit American consumers and small businesses, and will strengthen the American economy.

Congress passed the CTA in 2021 as part of a major push to address the United States’ antiquated and woefully deficient corporate transparency regime that led the country to be

ranked, variously, as the worst, and second-worst, jurisdiction in the world for financial secrets.<sup>1</sup> This ranking was the result of a number of factors, but its key driver was the lack of a national regulatory regime to combat illicit cash flowing through anonymous shell companies. Despite hopes that the states, acting independently, could resolve this issue, the country's federalist legal structure created a classic collective action problem. In general, corporations, limited liability companies and other legal entities are formed at the state level. Each state, therefore, sets the terms under which these entities operate—and the information they are required to report. States compete amongst themselves for corporate tax revenue, and are therefore incentivised to require corporations to do less and less paperwork and provide less and less information about their ownership structures in an effort to lure them to their jurisdiction. Even if some states enact more comprehensive disclosure regimes, if other states do not, bad actors can avoid disclosure by incorporating in those states. The result is that the beneficial owners of corporations in the United States are regularly unknown.

In the years since Congress passed the last major reform to the country's anti-money laundering and corporate secrecy laws,<sup>2</sup> the United States has repeatedly recognized that the proliferation of shell companies has created a serious vulnerability in the U.S. financial system. In 2006, for instance, the Government Accountability Office released a report on the risks associated with a lack of transparency in beneficial ownership information, and explained how “shell companies have become popular tools for facilitating criminal activity in the United States and internationally and can be involved in fraud and corruption or used for illicit purposes such as laundering money, financing terrorism, hiding and shielding assets from creditors, and engaging in questionable tax practices.”<sup>3</sup> Other studies since have reinforced these conclusions.<sup>4</sup> All of this has made the U.S., “[the] jurisdiction most complicit in helping individuals to hide their finances from the rule of law.”<sup>5</sup> It is therefore no surprise that, in 2021, Treasury Secretary Janet Yellen declared that “there's a good argument that,

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<sup>1</sup> See Tax Justice Network, “Financial Secrecy Index 2022: U.S. Country Profile,” *available at* <https://fsi.taxjustice.net/country-detail/#country=US&period=22>; Tax Justice Network, “Financial Secrecy Index 2020 reports progress on global transparency – but backsliding from US, Cayman and UK prompts call for sanctions,” Feb. 18, 2020, *available at* <https://taxjustice.net/press/financial-secrecy-index-2020-reports-progress-on-global-transparency-but-backsliding-from-us-cayman-and-uk-prompts-call-for-sanctions/> (the United States trailed only the Cayman Islands).

<sup>2</sup> Title III, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001.

<sup>3</sup> Government Accountability Office, “COMPANY FORMATIONS: Minimal Ownership Information Is Collected and Available,” Report to the Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate, Apr. 2006, *available at* <https://www.gao.gov/assets/gao-06-376.pdf>.

<sup>4</sup> See, e.g., National Money Laundering Risk Assessment, Dep't of Treasury, 2015.

<sup>5</sup> Tax Justice Network, Financial Secrecy Index 2022, *available at* <https://fsi.taxjustice.net/>.

right now, the best place to hide and launder ill-gotten gains is actually the United States”<sup>6</sup>—a conclusion previously reached by the Department of Justice.<sup>7</sup>

The country’s failure to develop a functional corporate anti-corruption regime has become an international crisis. As the market for illicit cash flows has grown, the U.S. has become one of the central nodes in the international opaque and potentially illicit finance structure.<sup>8</sup> For example:

- The Zheng drug trafficking organization—run by Chinese synthetic opioid trafficker Fujing Zheng—was indicted for using shell companies formed in Massachusetts as they mailed, repackaged and redistributed fentanyl analogues and 250 other drugs across the country.<sup>9</sup>
- The brutal Sinaloa Cartel was indicted for using a network of shell companies incorporated in Wyoming and overseen by a U.S. citizen in Arizona to organize the pickup of bulk cash proceeds from the sales of heroin and methamphetamine in the U.S.<sup>10</sup>
- One of Vladimir Putin’s close allies reportedly used a U.S. shell company to purchase a multi-million dollar house in Washington, D.C.<sup>11</sup>

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<sup>6</sup> Janet Yellen, Sec’y, U.S. Dep’t of the Treasury, Remarks at the Summit for Democracy, Dec. 9, 2021, available at <https://home.treasury.gov/news/press-releases/jy0524>.

<sup>7</sup> See U.S. Dep’t of Justice, Financial Action Task Force Report Recognizes U.S. Anti-Money Laundering and Counter-Terrorist Financing Leadership, but Action is Needed on Beneficial Ownership, Dec. 1, 2016, available at <https://www.justice.gov/archives/opa/blog/financial-action-task-force-report-recognizes-us-anti-money-laundering-and-counter>.

<sup>8</sup> See International Consortium of Investigative Journalists, “Offshore havens and hidden riches of world leaders and billionaires exposed in unprecedented leak,” Oct. 3, 2021, available at <https://www.icij.org/investigations/pandora-papers/global-investigation-tax-havens-offshore/>.

<sup>9</sup> U.S. Dep’t of Justice, Two Chinese Nationals Charged with Operating Global Opioid and Drug Manufacturing Conspiracy Resulting in Deaths, available at <https://www.justice.gov/opa/pr/two-chinese-nationals-charged-operating-global-opioid-and-drug-manufacturing-conspiracy>. See also Transparency International, “Stop Those Who Enable the Trafficking of Fentanyl and Other Drugs Into the United States,” Jun. 2023, available at <https://us.transparency.org/app/uploads/2023/06/ENABLERS-and-Drug-Trafficking-Factsheet-1.pdf>

<sup>10</sup> U.S. Dep’t of Justice, Sophisticated Sinaloa Cartel Money Laundering Organization Dismantled, Apr. 11, 2023, available at <https://www.justice.gov/usao-sdca/pr/sophisticated-sinaloa-cartel-money-laundering-organization-dismantled>.

<sup>11</sup> Rosalind S. Helderman and Alice Crites, “The Russian billionaire next door: Putin ally is tied to one of D.C.’s swankiest mansions,” *Washington Post*, Nov. 29, 2017, available at [https://www.washingtonpost.com/politics/the-russian-tycoon-next-door-putin-ally-is-tied-to-one-of-dcs-swankiest-mansions/2017/11/28/15f913de-cef6-11e7-81bc-c55a220c8cbe\\_story.html](https://www.washingtonpost.com/politics/the-russian-tycoon-next-door-putin-ally-is-tied-to-one-of-dcs-swankiest-mansions/2017/11/28/15f913de-cef6-11e7-81bc-c55a220c8cbe_story.html).

- Following the country's invasion of Ukraine, the Russian government, Russian elites, state-owned enterprises and organized crime have attempted to use U.S. and non-U.S. shell companies to evade sanctions.<sup>12</sup>
- King Abdullah II of Jordan used shell companies to purchase 14 luxury properties across the United States and United Kingdom.<sup>13</sup>

These harms are not theoretical. These illicit funds, funneled through shell companies into the United States, distort American markets through harmful commercial practices, undermine legitimate small businesses, make it harder for the poor to join the middle class and for Black and Brown communities in particular, to build generational wealth.<sup>14</sup> When the proceeds of corruption flow back into the economy, they “distort[] markets and victimize[] ordinary Americans.”<sup>15</sup>

This relationship is particularly evident in the real estate market where corrupt overseas financial flows are pricing ordinary Americans out of the housing market, with particularly devastating consequences for first-time homebuyers and Americans of color.<sup>16</sup> Corrupt

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<sup>12</sup> Adam Piore, “Russian Oligarchs Hide Money in Plain Sight in Luxury New York City Condos,” *Newsweek*, Mar. 14, 2022, available at

<https://www.newsweek.com/russian-oligarchs-hide-money-plain-sight-luxury-new-york-city-condos-1687503>. See also Matthew Goldstein and David Enrich, “How One Oligarch Used Shell Companies and Wall Street Ties to Invest in the U.S.,” *New York Times*, Jun. 22, 2023, available at

<https://www.nytimes.com/2022/03/21/business/russia-roman-abramovich-concord.html>.

<sup>13</sup> Will Fitzgibbon, “While foreign aid poured in, Jordan’s King Abdullah funneled \$100m through secret companies to buy luxury homes,” *International Consortium of Investigative Journalists*, Oct. 3, 2021, available at

<https://www.icij.org/investigations/pandora-papers/jordan-king-abdullah-luxury-property/>

<sup>14</sup> Gabe Lezra, “Real Estate Secrecy Links Global Corruption, Domestic Inequality,” *Just Security*, Mar. 23, 2022, available at

<https://www.justsecurity.org/80790/u-s-real-estate-secrecy-links-global-corruption-domestic-inequality/>.

<sup>15</sup> United States National Strategy for Combatting Terrorist and Other Illicit Financing, May 2022, available at

<https://home.treasury.gov/system/files/136/2022-National-Strategy-for-Combating-Terrorist-and-Other-Illicit-Financing.pdf>.

<sup>16</sup> A home is historically the best way to build generational wealth--and Black and Brown Americans are even more reliant on real estate to be a source of generational wealth than White Americans. Sarah Burd-Sharps and Rebecca Rasch, *Impact of the US Housing Crisis on the Racial Wealth Gap Across Generations*, Social Science Research Council, Jun. 2015, available at

[https://www.aclu.org/sites/default/files/field\\_document/discrimlend\\_final.pdf](https://www.aclu.org/sites/default/files/field_document/discrimlend_final.pdf). See also Dedrick Asante-Muhammad, Jamie Buell, Joshua Devine, *60% Black Homeownership: A Radical Goal For Black Wealth Development*, National Community Reinvestment Coalition, Mar. 2, 2021, available at <https://ncrc.org/60-black-homeownership-a-radical-goal-for-black-wealth-development/>.

Being unable to purchase a home, or being priced out of purchasing a home you would have otherwise bought, is a huge problem for Black and Brown communities who are just beginning to dig themselves out of the hole they were put into by the global financial crisis. See National Low Income Housing Coalition, *Report Shows African Americans Lost Half Their Wealth Due to Housing Crisis and*

buyers enter the market flush with opaque cash stored in impenetrable shell companies. Because they purchase properties in all-cash transactions, they don't need to obtain a mortgage or other loan, which would require disclosing the real person behind these entities.<sup>17</sup>

Untraceable money stored in shell companies has many economic harms beyond the real estate market. The Committee will likely find its impact on small businesses particularly instructive:

- Anonymous shell companies are regularly involved in corrupt schemes that allow them to obtain government contracts over legitimate American businesses. For instance, a company, hiding behind anonymous shell companies, received over \$136 million in government contracts through a program designed for minority-owned businesses.<sup>18</sup>
- The Department of Defense (“DOD”), which is responsible for 65 percent of all government contracts with private industry,<sup>19</sup> is often subject to schemes from “[i]llegitimate contractors” who “hide behind shell corporations to skirt domestic ownership and production requirements to win government contracts.”<sup>20</sup> These bad actors routinely use multiple shell companies to create the appearance of competition, thus driving up the cost of a contract, without any disclosure of apparent conflicts.<sup>21</sup> Critically, a 2019 study of 32 DOD contracts found that the

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Unemployment, Aug. 30, 2013, available at <https://nlihc.org/resource/report-shows-african-americans-lost-half-their-wealth-due-housing-crisis-and-unemployment>. See also Lezra, *Just Security*, Mar. 23, 2022,

<sup>17</sup> All-cash transactions are considered at high risk for money laundering, which is why FinCEN has begun the rulemaking process to regulate them. See Fatima Hussein, “Treasury rolls out estate transparency rules to combat money laundering,” *Associated Press*, Feb. 7, 2024, available at <https://apnews.com/article/treasury-regulation-money-laundering-real-estate-housing-7eae28e46caa570f00f6e986e9707a4>.

<sup>18</sup> FACT Sheet: Small Businesses Are Harmed by Anonymous Companies, FACT Coalition, Sep. 17, 2019, available at <https://thefactcoalition.org/fact-sheet-small-businesses-are-harmed-by-anonymous-companies/>.

<sup>19</sup> Rachael Hanna, “Shell Corporations Facilitate Contracting Fraud at the Department of Defense,” *Lawfare*, Apr. 21, 2020, available at <https://www.lawfaremedia.org/article/shell-corporations-facilitate-contracting-fraud-department-defense>.

<sup>20</sup> Rachael Hanna, “Shell Corporations Facilitate Contracting Fraud at the Department of Defense,” *Lawfare*, Apr. 21, 2020, available at <https://www.lawfaremedia.org/article/shell-corporations-facilitate-contracting-fraud-department-defense>.

<sup>21</sup> Rachael Hanna, “Shell Corporations Facilitate Contracting Fraud at the Department of Defense,” *Lawfare*, Apr. 21, 2020, available at <https://www.lawfaremedia.org/article/shell-corporations-facilitate-contracting-fraud-department-defense>.

government had been defrauded of hundreds of millions of dollars because of companies engaging in these practices.<sup>22</sup>

- Bad actors also use opaque shell companies to defraud legitimate businesses. In one instance, for example, an Illinois man created an anonymous company to defraud his employer, a small air conditioning repair business, and its customers of hundreds of thousands of dollars before he was arrested.<sup>23</sup>
- Various large businesses used shell companies to take advantage of the Paycheck Protection Program, a government fund designed to help small businesses struggling during the COVID-19 pandemic.<sup>24</sup> The program was specifically off limits to large companies with substantial access to large public markets.

This is the dire backdrop against which Congress developed and passed the CTA.

Happily, things are improving. Right now, FinCEN is working to develop and implement the comprehensive regulatory framework necessary to reflect Congress's intent in passing the CTA. And it is succeeding. The regulations designing the structure of the CTA's beneficial ownership registry have been a triumph.<sup>25</sup> FinCEN has designed a strong regulatory framework to ensure that the information that it collects from American corporate entities is comprehensive enough to be effective in the fight against illicit finance, but also is tailored to precisely what law enforcement needs.<sup>26</sup> And it has protected that data by designing regulations that limit access to confidential beneficial ownership information and that implement the CTA's criminal prohibition on unnecessary disclosure.<sup>27</sup> FinCEN is currently

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<sup>22</sup> Government Accountability Office, DEFENSE PROCUREMENT Ongoing DOD Fraud Risk Assessment Efforts Should Include Contractor Ownership, Report to Congressional Committees, Nov. 2019, available at <https://www.gao.gov/assets/gao-20-106.pdf>.

<sup>23</sup> U.S. Dep. of Justice, Illinois Man Pleads Guilty to Fraud and Money Laundering Charges, Jul. 27, 2016, available at <https://www.justice.gov/usao-edmo/pr/illinois-man-pleads-guilty-fraud-and-money-laundering-charges>.

<sup>24</sup> Accountable.US, Paycheck Protection Program Relief, Intended As A Lifeline For Small Businesses, Benefitted Entities Utilizing "Shell Companies" – Firms With No Or Nominal Operations That Frequently Had Large Amounts Of Cash On Their Balance Sheet., Sep. 29, 2020, available at <https://accountable.us/wp-content/uploads/2020/10/2020-09-29-Shell-Companies-Benefitted-From-PPP-FACT-CHECKED-1.pdf>.

<sup>25</sup> Gabe Lezra, "FinCEN's final rule implementing the Corporate Transparency Act is a victory," CREW, Sep. 30, 2022, available at <https://www.citizensforethics.org/news/analysis/fincens-final-rule-implementing-the-corporate-transparency-act-is-a-victory/>.

<sup>26</sup> FinCEN, Fact Sheet: Beneficial Ownership Information Access and Safeguards Final Rule, Dec. 21, 2023, available at <https://www.fincen.gov/news/news-releases/fact-sheet-beneficial-ownership-information-access-and-safeguards-final-rule>.

<sup>27</sup> FinCEN, Fact Sheet: Beneficial Ownership Information Access and Safeguards Final Rule, Dec. 21, 2023, available at <https://www.fincen.gov/news/news-releases/fact-sheet-beneficial-ownership-information-access-and-safeguards-final-rule>.

in the middle of a public education campaign to explain to corporations and their owners how and when to file their beneficial ownership information. It has issued dozens of detailed FAQs and other public-facing documents to help filers navigate the reporting process. But, even more importantly, it has made that process extremely simple—compliance with the CTA consists of a single form, that, for the 70% of businesses that have only one owner,<sup>28</sup> and the many that have simple ownership structures, will take only minutes to fill out, at an estimated one-time cost of \$85.<sup>29</sup> And, because the CTA and FinCEN's implementing regulations only focus on current beneficial owner information, any business that has not changed ownership will not have to file anything with FinCEN.

This ease of access and functionality is why more than 1 million businesses have filed their beneficial ownership information with FinCEN.<sup>30</sup>

It is critically important that we allow FinCEN to carry out the mission that Congress gave it when it passed the CTA. That a small number of loud lobbyists and corporations are campaigning to delay or even destroy the CTA must not distract from the reality: that the CTA is transitioning the United States from a global haven for corrupt money, into a global leader in the fight against corruption. The more the United States pushes back on the abuses of shell companies, the more it protects our markets and our small businesses from bad actors who seek to undermine our economy.

That is why it is crucial that Congress provide FinCEN with the funding it needs to complete this monumental task. Right now, the agency is facing a potential \$24 million budget cut.<sup>31</sup> That would be a disaster—and it wouldn't even accomplish what the loud voices who oppose the CTA want it to. Cutting FinCEN's budget now would be to risk mistakenly or badly implementing the CTA, if not destroying the CTA altogether. Such a massive budget cut risks undermining the registry just as it is going online. Instead of a useful registry that law enforcement can use to track bad actors and unweave webs of shell companies involved in fentanyl trafficking, you would risk creating a registry filled with holes and blind spots and of little use to law enforcement. Right now, bad actors are exploiting our broken system by using shell companies with corrupt or illicit cash to outbid and out-compete legitimate American businesses. If Congress is serious about fighting corruption and protecting

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<sup>28</sup> U.S. Small Business Administration, Frequently Asked Questions About Small Businesses, Mar. 2023, *available at* <https://advocacy.sba.gov/wp-content/uploads/2023/03/Frequently-Asked-Questions-About-Small-Business-March-2023-508c.pdf>.

<sup>29</sup> FinCEN, Beneficial Ownership Information Reporting Requirements, 87 Fed. Reg. 59498, Sep. 30, 2022, *available at* <https://www.govinfo.gov/content/pkg/FR-2022-09-30/pdf/2022-21020.pdf>.

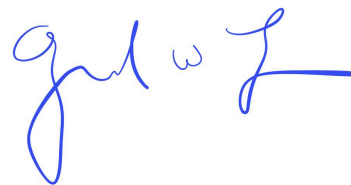
<sup>30</sup> FinCEN, Mar. 25, 2024, *available at* <https://x.com/FinCENnews/status/1772277271606276564>.

<sup>31</sup> FACT Coalition, Proposed Cuts to Financial Crime Fighters Threaten to Undermine U.S. Anti-Money Laundering Goals, National Security, Jun. 22, 2023, *available at* <https://thefactcoalition.org/proposed-cuts-to-financial-crime-fighters-threaten-to-undermine-u-s-anti-money-laundering-goals-national-security/>.

American small businesses from these types of risks then it must expand FinCEN's funding, not cut it.

The truth here is quite simple: corruption is bad for business. When you fight against corruption and illicit cash stored in opaque shell companies, you fight for legitimate small businesses run by everyday Americans who just want to compete in a fair and free market.

CREW looks forward to working with this committee to address the impact of dark money stored in shell companies on American small businesses.

A handwritten signature in blue ink, appearing to read "gale", followed by a small "w" and a stylized flourish.

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