

# HILL ALERT



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## **No Benefit to a Beneficial Ownership Reporting System That Increases America's Over-Incarceration Problem and Fails to Adequately Protect Privacy**

H.R. 2513 would require people who form or already own businesses, particularly small businesses, to submit extensive personal, financial, and business-related information to the government's Financial Crimes Enforcement Network (FinCEN). Legislative efforts to stop international crime by trying to "follow the money" such as H.R. 2513 likely have the best intentions in mind. However, the **Due Process Institute**, the **American Civil Liberties Union**, and **FreedomWorks** have serious concerns with several provisions of the **Corporate Transparency Act of 2019** and believe the House should vote **no** TODAY on H.R. 2513 until these issues are fully addressed.

In sum, the creation of at least 5 new federal crimes for first-time "paperwork" violations that are felony criminal offenses calling for prison time is a dramatic step in the wrong direction. No matter how well-intentioned, this bill bears no real relation to combatting terrorism or money laundering and instead eliminates a significant amount of personal and financial privacy. On that score, the bill fails to adequately address how all of the personal and financial information disclosed to, and collected by, the government will be used solely for legitimate purposes or specifically address how privacy interests will be protected.

### **Key Terms are Too Vague**

Importantly, numerous key terms and phrases in the bill are poorly defined. For example, the current definition of "beneficial owner" includes anyone who "directly or indirectly" exercises substantial control or receives substantial economic benefit from an entity. What does it mean to indirectly control an entity? The bill does not explain. We also cannot look to current FinCEN regulations to divine meaning. The bill does not replicate current FinCEN definitions of beneficial ownership and broadens the current definition to include an individual that "receives substantial economic benefits from the assets of a corporation." Again, the bill does not explain the term. This lack of clarity has very serious consequences when a bill creates at least 5 new federal criminal laws that do nothing but increase this nation's overreliance on criminalization as a cure for every problem. Vague or overly broad statutory text leaves people vulnerable to unfair criminal investigations and prosecutions.

### **Complex Criminal Compliance Laws Unfairly Burden Small Businesses & Nonprofits**

Furthermore, this bill exempts most large entities with the compliance teams necessary to help them navigate new and burdensome requirements. Determining what is to be reported, when, and by whom, in a complex regulatory scheme is difficult. Large corporations are exempt—leaving the reporting burdens solely to small or independent businessowners as well as many nonprofits. Compounding this problem, these new disclosure requirements would apply not only to newly formed entities but also to those that have already been in existence—yet a businessowner (even a first-time offender) who fails to comply with any aspect of the requirements could face a prison sentence, as might a non-profit organization that inadvertently fails to meet all of the requirements to qualify for an exemption in the bill. These kinds of requirements easily set traps for honest people trying to faithfully comply with complex laws, particularly owners who lack experience or significant funds and volunteer-based nonprofits also lacking in funds and expertise to retain sophisticated business lawyers who can help them.

## **Beneficial Ownership Information Would Lack Sufficient Privacy Protection**

The bill currently would permit beneficial ownership information to be shared with local, Tribal, State, or Federal law enforcement under nearly any circumstances where they may assert an existing investigatory basis and agree to abide by vague privacy standards. The receiving agency may then use that information, without meaningful limitation, for any other law enforcement, national security, or intelligence purpose. These standards are entirely too broad and leave far too much personal information vulnerable to disclosure. The bill should permit FinCEN to disclose beneficial ownership information only when presented with a warrant based on probable cause. Without a clear standard limiting information disclosure, there would be few if any limits on the sharing of this information. Search warrants based on probable cause are the standard for obtaining information in criminal investigations and it would be reasonable to require them in this context. Moreover, the bill contains inadequate safeguards for protecting against the improper disclosure of information or for appropriately limiting the use of the information disclosed. At a minimum, the bill should limit use of the information to the investigative purposes for which it was collected and require the deletion of information after it is no longer useful for its investigative purpose. And it fails to provide either.

**The truth is: there are already hundreds of federal criminal laws on the books, along with a wide swath of powerful investigative tools and authorities, that the government can use to adequately address or prevent money laundering and this bill is an unnecessary step in the wrong direction.**

**We hope you share our bipartisan concerns and oppose this legislation when voting today unless serious amendments are made.**

If you have further questions, feel free to contact Shana O'Toole (202-558-6683 or [Shana@iDueProcess.org](mailto:Shana@iDueProcess.org)), Kate Ruane (202-675-2336 or [kruane@aclu.org](mailto:kruane@aclu.org)), or Jason Pye (202-942-7634 or [jpye@freedomworks.org](mailto:jpye@freedomworks.org)).