

GLOBAL FINANCIAL INTEGRITY

The Library Card Project: The Ease of Forming Anonymous Companies in the United States



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Background

In early April 2016 the largest cache of private documents in history were leaked to journalists and subsequently exposed the shadowy world of offshore tax fraud, money laundering and corruption that hides behind anonymous shell corporations. The documents, which included email, incorporation papers and other private communications, were from a little-known Panamanian law firm called Mossack Fonseca and were released by the International Consortium of Investigative Journalists which had received them from a whistleblower. The ensuing scandal followed two others before it – Lux Leaks and Swiss Leaks which were related to bank-enabled tax evasion – but dwarfed them in the sheer amount of data involved.

Dubbed “The Panama Papers”, the 11.5 million leaked documents feature information for more than 200,000 offshore entities established by the law firm over a number of decades. Among the 14,000 individuals who were named in the data dump were Bollywood actors, Mexican construction company owners, soccer stars and Heads of State. They also revealed firms with ties to arms dealing, narcotics trafficking, tax evasion and grand corruption. Despite the enormity of the release (i.e. 2.6 terabytes of information) the data represents information from just one law firm in one jurisdiction – merely the tip of the iceberg that takes the form of opaque offshore financial dealings.

It must be noted that not all the companies or individuals mentioned in the Panama Papers were accused of illegal activity and that the formation of an anonymous shell company is, in most jurisdictions around the world, a completely legal process. However, it should also be said that there is no legitimate reason for company owners to be anonymous. Essentially, anonymous shell corporations – companies which keep ownership secret and are often established solely to create a bank account through which funds can be funneled – are legal entities through which illegal activity can be conducted and hidden very easily. For those who wish to play fast and loose with the rules, anonymous shells are cocoons for the corrupt and the criminal.

As it happens, more corporations – anonymous and public – are established in the United States each year than in any other jurisdiction. According to one estimate some two million corporations are created annually and Delaware, the epicenter of company formation in the U.S., has more companies than people.¹ One low-slung building in Wilmington, the state capital, was at one point in time “home” to almost 300,000 corporations. While company formation is big business (about 25 percent of Delaware’s budget is from corporate taxes and fees) the dark side of anonymous entities is readily apparent. In addition to tax evasion and shady campaign contributions, U.S.-based shells have been used to hide the proceeds of activities as diverse as cigarette smuggling and weapons dealing.²

¹ Wayne, Leslie, “How Delaware Thrives as a Corporate Tax Haven,” *New York Times*, June 30, 2012, https://www.nytimes.com/2012/07/01/business/how-delaware-thrives-as-a-corporate-tax-haven.html?_r=0. Accessed November 26, 2018.

² *Ibid.*

What is most striking about company formation in the U.S. (note: corporate entities are created at the state level) is how simple it is to create a firm and how little personal information is required to do so. Indeed, this project was inspired by a GFI staff member who was going through the quotidian process of obtaining a library card at the Martin Luther King, Jr. library in Washington, DC. While she was filling out the required paperwork and providing her driving license and a utility bill as proof of existence and residence, she realized that she had to provide far more personal information than would be required to create a company. Contrasting the damage she could do with her library card to the damage she could do with an anonymous company, and the difference in personal data requirements made even less sense. Yet hundreds of millions of Americans happily provide personal information to their state to obtain a library card, while some state and federal lawmakers regularly bemoan the perceived intrusion of privacy that providing information about who ultimately owns a corporation would create.

Findings

This report demonstrates, on a state by state basis, that a person needs to provide far more personal information to a state to obtain a library card than to create a company.

To obtain a library card in any state in the U.S., the applicant must be the person who will ultimately be controlling/using the card, and a significant amount of identifying information must be provided by the person to the state in order to obtain the library card.³

To form a company in any state in the U.S., it is not necessary to identify or provide any information about the person(s) who will be ultimately be controlling the company. In some cases it isn't even necessary to provide information about who will be managing the company and, where some information about managers (i.e. officers or directors) is required, it is very limited.

Global Financial Integrity undertook this research because anonymous companies, or companies with hidden ownership, are a primary vehicle for moving and hiding the proceeds of crimes that are tearing ever-growing holes in the fabric of our society such as human trafficking, bribery, drug production and trafficking, and fraud. They can also be used to hide things purchased with those criminal funds, such as buying real estate or a yacht in the name of one of these anonymous companies, which is often part of the process of laundering that criminal money. They are used to move funds to those engaging in terrorism.

In the case of both library card applications and applications to form companies, the registration information is being provided to an arm of the state government. In 2012, the most recent year for which data are available, there were 170,593,000 registered library card holders. That is 170,593,000 Americans who were willing to provide detailed information about their identity, personal contact details, and address and to provide verification of this information in-person. Yet time and again state and federal lawmakers bemoan that requiring any information about the people who own or control companies is an unwarranted invasion of privacy, is too technologically difficult or costly to collect, and will make incorporating companies unacceptably slow.

In many cases in the U.S. and around the world, the anonymity of U.S. companies makes it incredibly difficult for law enforcement and tax authorities to follow the money, to find the people behind these anonymous companies, and to expose and prosecute the criminals and criminal networks responsible for these corrosive and heinous activities. It is troubling that it is so easy to create an anonymous company and, in some cases, to do it in less than a day. In one rather disturbing, albeit humorous, YouTube video a woman sets up a Delaware corporation for her pet cat in under five minutes.⁴ It has confounded us that officials in both the state and federal government have recognized this fundamental and pervasive problem for many years but have failed to act to correct it.

³ Apart from, in limited cases, where the applicant is a minor.

⁴ <https://www.youtube.com/watch?v=R0nHETD1wxg>. Accessed November 26, 2018.

Details

With respect to library card applications, our research showed the following:

- In all states the applicant for a library card must be the person using the card;
- In all states the applicant must provide their name, residential and/or mailing address, and city of residence;
- In all states in-person registration is required for, or final collection of, a library card;
- 47 states require verification of information via presentation of photo identification;
- 46 states require another document such as a utility bill, mortgage statement, or lease to verify the applicant's address either as a unique requirement or where the applicant's address on their photo identification is incorrect.

With respect to corporate formation applications, our research showed that:

- No state requires *any* information about the person(s) who directly or indirectly own or control the company (often referred to as a *beneficial* owner);
- 23 states and the District of Columbia do not require that a company's address to be provided. They are Alaska, Arkansas, Connecticut, District of Columbia, Indiana, Illinois, Maine, Michigan, Minnesota, Missouri, Mississippi, Montana, North Carolina, New Hampshire, New Mexico, Nevada, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Texas, Virginia, Washington, and Wisconsin;
- Every state requires the name of the person who incorporated the company, but that is often simply a person's lawyer or a representative of a formation company – known as a “registered agent” – that can be hired to create a company for a beneficial owner;
- 4 states (Alaska, California, Ohio and Virginia) do not even require the incorporator's address;
- Only 13 states require any information about a company's directors;
- Only five states require any information about a company's officers either upon incorporation or within the first 90 days after incorporation.

While no states require beneficial owner information during company formation they do expect the information that is required to be accurate. For example, in Florida and Nevada false information on an application form can result in a felony charge. A similar infraction would be a misdemeanor in West Virginia. Further, many states require companies to submit annual reports – presumably to ensure they are operational – with perhaps Massachusetts being the most strict in this regard in that “every corporation authorized to transact business...MUST file an annual report (emphasis in the original).”

But libraries, too, are not to be fooled with when applying for borrowing privileges. For example, Hawaiians are warned that their card may be revoked “if any information given...is proved false” and at the Columbus Metropolitan Library in Ohio the applicant is warned that “This application is a CONTRACT, so read it carefully (emphasis in the original).” Further, borrowers at the Salem Public Library in Oregon are reminded to treat their library card as they would a credit card and at the Lewis & Clark Library in Helena, Montana customers must sign a statement acknowledging that “Library privileges can be suspended if abused.” And, in what may be one of the most security conscious libraries in the country, the Paul Sawyer Public Library in Frankfort, Kentucky has installed a biometric finger identification system for patrons wishing to check out materials.

Table 1. Library Card vs. Incorporation Filing Requirements, by State

Library Card Requirements					Incorporation Requirements					
State	Name of User	Address	Phone/Email	Apply in Person	Name and Proof		Address and Proof		Contacts	Presence
					Officer(s)	BO(s)	Officer(s)	BO(s)	Corporation Phone/Email	Apply in Person
AK										
AL										
AR										
AZ										
CA					*		*			
CO										
CT										
DC										
DE										
FL										
GA					*		#			
HI										
IA										
ID										
IL										
IN										
KS										
KY										
LA										
MA										
MD										
ME										
MI										
MN										
MO										
MS										
MT										#
NC									&	
ND										
NE										
NH										
NJ										
NM										
NV					^					
NY										#
OH										
OK										
OR										
PA										
RI										
SC										
SD										
TN										
TX										
UT										
VA										
VT										
WA										
WI										
WV										
WY										

KEY:

Required with Proof
Not Required
Required Without Proof

- BO(s) – Beneficial Owner(s)
- * – Must be filed within 90 days of establishing company
- # – Could not determine
- & – Only if the company has a principal office
- ^ - To be filed shortly after incorporation

Conclusions and Recommendation

It is clear from our research that a state's library system knows exactly who borrows library materials and where the individual can be reached. It is also clear that in most cases a state's law enforcement agencies, tax authority or business/corporations department has no information about who ultimately owns or controls the companies that have been established in that state. Further, despite those corporate entities having the right to access the U.S. and international financial systems very little information is known about who even manages the companies.

It will be of no surprise that the main recommendation of this report is that federal and state lawmakers update the state incorporation systems to begin requiring information about the people who ultimately own or control corporations, as well as information about those managing the companies. Legislation before both Houses of Congress to create incorporation transparency for company ownership has been introduced by Representatives Carolyn Maloney (D-NY) and Peter King (R-NY) and by Senators Ron Wyden (D-OR) and Marco Rubio (R-FL) and Sheldon Whitehouse (D-RI) and Charles Grassley (R-IA).⁵ There is bipartisan support for these bills and wide endorsement of beneficial ownership transparency from the banking sector, law enforcement, national security experts, large and small businesses, realtors, and scholars, faith leaders and anti-corruption groups from across the political [spectrum](#). Given the breadth of support, it is hoped that significant progress can be made towards passage. Only when the ownership and control of a company is transparent to government officials will there be a reasonable chance to curtail the improper use of corporate entities.


⁵ See: <https://thefactcoalition.org/issues/incorporation-transparency/legislation>. Accessed November 26, 2018.


Format of the Information Provided


Due to the vastly different types of information collected when applying to form a company and applying for a library card, it was not possible to create a one-to-one comparison of our results. We have attempted to keep similar types of information in a similar order, however, for purposes of rudimentary comparison.

The color-coding in the charts indicates the following:


Corporate Formation


 **Green** indicates that the information along with a document verifying said information is required to be provided by the applicant(s).


 **Red** indicates that the information is not required to be provided by applicant(s). Where an information field was provided on a form or included in a list of information that could be included in an application but was optional/not required to be completed, it was colored red.

 **Yellow** indicates that the information was required to be filed at the time of incorporation or later, however a document verifying said information was not required.

Library Card Registration

 **Green** indicates that the information along with a document verifying said information is required to be provided by applicant(s).

 **Red** indicates that the information is not required to be provided by the applicant(s).

 **Yellow** indicates that the information was required to be filed at the time of application, however a document verifying said information was not required.

Methodology

GFI researchers reviewed original source materials for this state by state research project, with additional clarification via telephone calls and/or secondary source research where information from the original source materials appeared unclear or incomplete. Original research was completed in 2016, with updating and verification completed in 2017. It should be noted that, for expediency, the library card application requirements of one library in each state were used as a proxy for the entire state and do not take into consideration slight variations in the application that may be used by other libraries.

Corporate Formation

With respect to corporate formation, researchers reviewed corporate formation forms for the most standard form of for-profit entity that could be created in the state and any accompanying instructions for completing the form. Where a state provided only the option of filing out the relevant information online, researchers went through the online application process without finalizing the formation. Where a state provided only a list of information that needed to be provided in a certificate of incorporation or its equivalent, researchers relied on the list. All original source materials were obtained from the official state government website containing corporate formation information (usually a part of a Secretary of State's website, but not exclusively).

Library Card Registration

With respect to the information required to be provided to obtain a library card, researchers began by accessing the website of the main library in each state's capital. Some states provided the option of an online registration process and our researchers followed those processes, noting the subsequent in-person verifications that would be needed (which were required in all cases of online registration). Some states provided a list of the information that an applicant must provide in order to obtain a library card, and our researchers relied on these lists. Finally, some libraries provided little to no information online about the library card application process, and our researchers called those state libraries in order to obtain a copy of the library card application, usually provided as a scanned document or by fax.

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