



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

May 5, 2016

The Honorable Paul D. Ryan
Speaker
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

The United States leads the world in countering money laundering and has led the world to establish more effective tools to crack down on tax evasion. This has been an area of significant focus for the Department of the Treasury and throughout this Administration. We have worked closely with Congress to counter these threats, and I write today to provide both an update on a number of actions taken, including important new rules finalized today, and to urge that Congress act on important new authorities that would strengthen our efforts.

The Bank Secrecy Act, which Congress passed in 1970, placed the United States on the leading edge of combatting financial crimes, including money-laundering, terrorist financing, and the financing of weapons of mass destruction. More recently in 2010, this Administration worked with Congress to enact a critical tool in the fight against tax evasion: the Foreign Account Tax Compliance Act (FATCA). FATCA allows us to gain insight into the accounts of U.S. citizens abroad, limiting the ability of tax evaders to hide assets in overseas accounts. The United States is partnering with more than 110 governments around the world in this effort, and nearly 200,000 financial institutions have registered with the IRS to comply. FATCA's international success has led to the creation of the Common Reporting Standard, a global template for information sharing endorsed by the G-20 countries.

Yet gaps remain in our laws that allow bad actors to deliberately use U.S. companies to hide money laundering, tax evasion, and other illicit financial activities. To address these vulnerabilities, today Treasury announced several significant actions using existing authorities to increase transparency and disclosure requirements and empower law enforcement.

First, Treasury finalized customer due diligence regulations to further strengthen the Bank Secrecy Act and improve financial transparency. These regulations implement a common-sense requirement so that financial institutions know who actually owns the companies that make use of their services (the "beneficial owner"). This is the result of four years of work and is a critical step in our effort to prevent criminals from using companies to hide their identity and launder criminal proceeds.

Second, Treasury issued proposed rules to close a current loophole in our system that allows foreign persons to hide assets in U.S. accounts. Our federal tax system has strong information reporting requirements for most types of entities formed in the United States. But there is a narrow class of foreign-owned U.S. entities—typically, single-member limited liability companies—that have no obligation to obtain a tax identification number or to report information to the IRS. This loophole can be used to shield the foreign owners of non-U.S. assets or non-U.S. bank accounts. Under these new regulations, these entities must report ownership and transaction information to the IRS, helping to further the fight against tax evasion.

Despite these efforts, bad actors will continue to seek new ways to exploit the system. We must continue to take thoughtful and decisive action to address these threats. Existing authorities do not provide all the tools we need for the Administration to do this alone. The Administration has proposed legislation that will help keep the United States at the forefront of the fight against financial crime, and it is important that Congress take action.

First, Congress should swiftly pass meaningful beneficial ownership legislation. This legislation would build on Treasury's action by requiring companies to know and disclose the real person behind a company at the time of its creation. Criminals are currently able to misuse companies to hide this beneficial owner, significantly weakening our ability to fight financial crime. This problem can only be resolved with congressional action.

In addition, the Senate should approve pending tax treaties. Bilateral tax treaties are a critical tool for the United States to ensure full and fair enforcement of our tax laws. The government has negotiated eight different treaties and it is the Senate's constitutional responsibility to advise and consent. In the past, the Senate approved these treaties as a matter of course, but many of the current treaties have been awaiting floor consideration for five years or more. The tax treaty with Switzerland has been pending since January 2011, and a tax treaty with Luxembourg since November 2010. Failure to consent to these treaties limits our ability to enforce U.S. tax laws.

Finally, we must ensure that the United States can live up to its end of the bargain on foreign tax reporting. While the United States led the world by enacting FATCA, currently, the United States does not provide its FATCA partners with the same information about U.S. financial institutions that foreign financial institutions must provide the IRS. This is because legislation is needed to require U.S. financial institutions to provide this additional level of detail. Reciprocity with other jurisdictions is a key component of any successful strategy for combatting international tax evasion and ensuring future collaboration with our partners overseas. The President has proposed providing full reciprocity under FATCA in his last three budgets. Congress should enact this proposal as soon as possible.

Illicit financial activity is a critical concern for the United States and our partners around the world, and the Administration is committed to taking all available steps on this important issue. Additional statutory authority is necessary to put the United States in the strongest position to combat bad actors who seek to hide their financial dealings and evade their tax responsibilities. That is why I am urging swift legislative action on these important issues. We look forward to

working with Congress in a bipartisan manner to increase financial transparency in the United States and protect the integrity of the U.S. and global financial systems.

Sincerely,



Jacob J. Lew

Identical letter sent to:

The Honorable Nancy Pelosi, House Democratic Leader
The Honorable Mitch McConnell, Senate Majority Leader
The Honorable Harry Reid, Senate Democratic Leader

cc: The Honorable Richard Shelby, Chairman, Senate Committee on Banking, Housing, and Urban Affairs
The Honorable Sherrod Brown, Ranking Member, Senate Committee on Banking, Housing, and Urban Affairs
The Honorable Orrin G. Hatch, Chairman, Senate Committee on Finance
The Honorable Ron Wyden, Ranking Member, Senate Committee on Finance
The Honorable Kevin Brady, Chairman, House Committee on Ways and Means
The Honorable Sander M. Levin, Ranking Member, House Committee on Ways and Means
The Honorable Jeb Hensarling, Chairman, House Committee on Financial Services
The Honorable Maxine Waters, Ranking Member, House Committee on Financial Services