



TikTok! A Social Media Money Laundering Conduit?

TikTok

TikTok is a short-form video-sharing platform owned by **ByteDance**, a technology company headquartered in Beijing, China. The app allows users to create, share, and engage with videos ranging from entertainment and education to influencer content and brand marketing.

TikTok has over **1.5 billion active users** globally and operates in more than **150 countries**, with a large user base in the United States, Europe, and Asia. The platform is especially popular among younger audiences, who form the majority of its content creators and consumers.

Money Laundering

Money laundering is the process of disguising the origins of illegally obtained money to make it appear legitimate. Criminals use various methods to move illicit funds through legal financial systems to avoid detection.

There are three stages in the laundering process:

1. **Placement:** The introduction of illegal funds into the financial system.
2. **Layering:** Moving the funds through a series of complex transactions to obscure their origin.
3. **Integration:** Reintroducing the laundered money into the economy as clean funds.

Each stage is designed to separate the money from its criminal source, making detection more difficult.

The Case Against TikTok

Utah Division of Consumer Protection vs TikTok Inc.

In February 2024, the Utah Division of Consumer Protection filed a lawsuit against TikTok Inc., alleging deceptive practices, including concerns about money laundering through the platform's gifting feature.

TikTok allows users to purchase digital gifts using real money. These gifts can be sent to creators during live streams and then redeemed for real currency. This system creates a flow of funds that can be misused by criminals to launder money.



Examples from the Case:

- Criminals **use stolen credit cards** to buy TikTok coins.
- They **send these coins as gifts** to accounts they control or collaborate with.
- These accounts **convert the gifts back into real money**, withdrawing the funds through bank accounts or third-party payment systems.
- TikTok **earns a percentage** from each transaction, meaning it **profits regardless of the gift's origin**.

This process fits into the placement and layering stages of money laundering. Because the platform does not require full identity verification for gifting or redemption, it becomes a tool for disguising illicit transactions.

The Need for Regulation and Institutional Exposure

The TikTok gifting system exposes a regulatory gap in the oversight of social media-based financial transactions. Unlike banks and traditional financial institutions, platforms like TikTok do not fall under the same anti-money laundering (AML) regulations.

Without regulation:

- Platforms can unknowingly become conduits for money laundering.
- Criminal networks can exploit the lack of monitoring.
- There is no requirement for suspicious transaction reporting.

Financial institutions may also be exposed. When users withdraw money earned from TikTok, the funds may enter the formal banking system without proper source verification. This puts banks and payment processors at risk of unknowingly layering illicit funds.

Conclusion and Key Takeaways

The lawsuit against TikTok highlights how unregulated digital platforms can be exploited for money laundering. Criminals use features like digital gifting to move illicit money in and out of the system. These transactions often go unnoticed due to the lack of AML controls on social media.



Key Takeaways:

- TikTok's gifting feature can be used for the **placement and layering** of illicit funds.
- The platform profits from these transactions and **lacks transparency and AML oversight**.
- **Banks and financial institutions are exposed** when laundered funds flow into their systems.
- **Regulation is necessary** to close these gaps and require AML compliance from platforms like TikTok.
- **User protection** depends on stricter platform controls, including identity verification, transaction monitoring, and reporting obligations.

Recommendations:

- Introduce **AML regulations** for social media platforms handling monetary transactions.
- Require **Know Your Customer (KYC)** verification for high-volume users.
- Increase **collaboration between platforms and financial institutions** to trace suspicious activity.
- Educate users about **the risks of fraudulent gifts** and transactions.

By addressing these vulnerabilities, regulators and platforms can limit the misuse of social media for financial crime and protect users and financial institutions from unintended involvement in money laundering activities.

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