



August 19, 2022

Firearms Dealers “Engaged in the Business”

On June 25, 2022, President Joe Biden signed into law the Bipartisan Safer Communities Act (BSCA; P.L. 117-159). Section 12002 of the BSCA amends definitions related to firearms dealer licensure in the Gun Control Act of 1968 (GCA, 18 U.S.C. §§921 et seq.). Under the GCA, the definition of “engaged in the business” undergirds provisions that require persons buying and selling firearms at the wholesale or retail level to be federally licensed as firearms dealers. Section 12002 of the BSCA amends a subparagraph of the GCA definition of “engaged in the business” as it pertains to federally licensed firearms dealers, by striking the language “with the principal objective of livelihood and profit,” and replacing it with “to predominantly earn a profit.” As amended, the definition at 18 U.S.C. §921(a)(21)(C) reads as follows:

[“Engaged in the business,”] as applied to a dealer in firearms, as defined in section 921(a)(11)(A), [means] a person who devotes time, attention, and labor to dealing in firearms as a regular course of trade or business *to predominantly earn a profit* [~~with the principal objective of livelihood and profit~~] through the repetitive purchase and resale of firearms, but such term shall not include a person who makes occasional sales, exchanges, or purchases of firearms for the enhancement of a personal collection or for a hobby, or who sells all or part of his collection of firearms.

As discussed below, Section 12002 also amends the GCA to define the clause “to predominantly earn a profit,” specifically excepting firearms transfers made to improve or liquidate a personal firearms collection. Notably, Section 12002 does not amend the parallel GCA subparagraphs defining “engaged in the business” for firearms and ammunition manufacturers and importers at 18 U.S.C. §§921(a)(21)(A), (B), (D), (E), and (F).

“Engaged in the Business” and Licensure

The GCA requires all persons “engaged in the business” of importing, manufacturing, and dealing firearms to be licensed as federal firearms licensees (FFLs) (18 U.S.C. §923). Any person who imports or manufactures ammunition must also be licensed, but a federal dealer’s license is not required to deal in ammunition. Under Section 922(a)(1)(A), it is unlawful to engage in the business of importing, manufacturing, or dealing in firearms without a federal license. Offenses are punishable by up to five years’ imprisonment. The Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) is the federal agency that administers and enforces the GCA and licenses FFLs. Section 921(a)(11) of the GCA defines the term “dealer” to mean

(A) any person engaged in the business of selling firearms at wholesale or retail [i.e., firearms dealers],

(B) any person engaged in the business of repairing firearms or of making or fitting special barrels, stocks, trigger mechanism to firearms [i.e., gunsmiths], or

(C) any person who is a pawnbroker.

The term “licensed dealer” means any dealer who is licensed under the provision of this chapter.

It is notable that the subparagraph (18 U.S.C. §921(a)(21)(C)), which defines “engaged in the business” for federally licensed firearms dealers, only refers to subparagraph (A) of the GCA definition of “dealer.” The subparagraph does not refer to subparagraphs (B) and (C) of the definition of “dealer.” Hence, gunsmiths and pawnbrokers must be federally licensed as gun dealers, even if they do not meet the conditions set out in the definition of “engaged in the business” for federally licensed firearms dealers at 18 U.S.C. §921(a)(21)(C).

“To Predominantly Earn a Profit” Definition

The BSCA further emphasizes a profit motive as a factual circumstance requiring federal licensure as a gun dealer by defining the phrase, “to predominantly earn a profit,” to mean

that the intent underlying the sale or disposition of firearms is predominantly one of obtaining pecuniary gain, as opposed to other intents, such as improving or liquidating a personal firearms collection.

Again, this definition reiterates a personal firearms collection exception included in the definition of “engaged in the business.” On the other hand, in regard to firearms transfers related to terrorism and other criminal conduct, this definition includes the following proviso:

That proof of profit shall not be required as to a person who engages in the regular and repetitive purchase and disposition of firearms for criminal purposes or terrorism. For purposes of this paragraph, the term ‘terrorism’ means activity, directed against United States persons, which—

(A) is committed by an individual who is not a national or permanent resident alien of the United States;

(B) involves violent acts or acts dangerous to human life which would be a criminal violation if committed within the jurisdiction of the United States; and

(C) is intended—

- (i) to intimidate or coerce a civilian population;
- (ii) to influence the policy of a government by intimidation or coercion; or
- (iii) to affect the conduct of a government by assassination or kidnapping.

This new provision is designated in the GCA as Paragraph 922(a)(22) of Title 18 of the U.S. Code, moving and re-designating to Section 922(a)(23) the definition of “with the principal objective of livelihood and profit” as it still applies to licensed manufacturers and importers. The terrorism/criminal purposes proviso is, and was previously, included in the latter provision as well.

GCA Recordkeeping and Background Checks

To deter unlawful firearms commerce and gun trafficking, the GCA generally prohibits anyone who is not licensed as an FFL from acquiring a firearm from an out-of-state source, requiring that such transfers be facilitated through an FFL in the state where the transferee resides. The GCA requires FFLs to maintain records on all commercial firearms transactions. The act also requires an FFL to initiate a background check through the National Instant Criminal Background Checks System (NICS) on any unlicensed person who seeks to acquire a firearm from the FFL through a sale, trade, or redemption of firearms exchanged for collateral (18 U.S.C. §922(t)). In the case of a NICS system “proceed” response, the FFL may complete the transfer. In the case of a system “delayed” response, the FFL is permitted to proceed with the transfer at their discretion after three business days have elapsed if the FFL has not received a final NICS eligibility determination.

Intrastate, private transfers between unlicensed persons “not engaged in the business” of dealing in firearms “to predominantly earn a profit” are not covered by the recordkeeping or the background check provisions of the GCA, as amended by the BSCA. However, such transfers and other matters such as possession, registration, and the issuance of licenses to firearms owners may be covered by state laws or local ordinances. Some gun control advocates refer to intrastate, private firearm transfers as the “gun show loophole” and call for comprehensive/universal background checks. Related legislation has passed the House in the 116th and 117th Congresses. See CRS In Focus IF11781, *Firearm Background Checks Under H.R. 8 and H.R. 1446*.

ATF Guidance Prior to BSCA

In January 2016, the ATF provided guidance to firearms dealers with regard to FFL licensure requirements at that time. According to this ATF guidance

- Any person engaged in the business of dealing in firearms is a person who “devotes time, attention and labor to dealing in firearms as a regular course of trade or business with the principal objective of livelihood and profit through the repetitive purchase and resale of firearms” and must be federally licensed.
- Conducting business “with the principal objective of livelihood and profit” meant that “the intent underlying the sale or disposition of firearms is predominantly one of obtaining livelihood and pecuniary gain, as opposed

to other intents, such as improving or liquidating a personal firearms collection.”

- Consistent with this approach, federal law explicitly exempted persons “who make occasional sales, exchanges, or purchases of firearms for the enhancement of a personal collection or for a hobby, or who sells all or part of his personal collection of firearms.”
- And, “as a general rule,” a person needed to be licensed “if they repetitively buy and sell firearms with the principal motive of making a profit.”

According to the National Shooting Sports Foundation (NSSF), this guidance represented a broader interpretation of the law than what had been commonly accepted previously, although ATF cited several criminal cases as precedent in its guidance. Hence, it could be concluded that the BSCA more explicitly codifies ATF’s interpretation of prior law. In addition, the NSSF has observed that the BSCA could increase the number of federally licensed dealers, possibly straining ATF resources. ATF aims to inspect every FFL for compliance with federal firearms regulations on a three-year cycle. For FY2021, ATF reported that it conducted 6,721 inspections of FFLs, or 8.1% of 83,457 FFLs.

Shift in Focus from Livelihood to Profit

The BSCA shifts the focus of the GCA dealer licensing requirement onto an intent to seek a profit by eliminating the “principal objective of livelihood” as a condition for licensure. As noted above, for federally licensed firearms manufacturers and importers, there is no change in the law. For federally licensed firearms and ammunition manufacturers and importers, the “principal objective of livelihood and profit” remains a central condition requiring licensure. For federally licensed gun dealers “to predominantly earn a profit” is now the central condition requiring licensure.

The BSCA amendments are intended to require persons who buy and resell firearms repetitively for profit to be licensed federally as gun dealers, even if they do not do so with “the principal objective of livelihood.” As a result, the BSCA definitional changes could make some, but not all, intrastate, private firearm transfers subject to GCA recordkeeping and background check requirements, if those transfers are made by profit-oriented, repetitive firearms buyers and sellers. Arguably, such transfers were not covered under previous law, if the firearms transfers in question were not also made for the “principal objective” of one’s “livelihood.” According to the BSCA’s sponsors, there was confusion about the GCA’s definition of “engaged in the business,” as it pertained to individuals who bought and resold firearms repetitively for profit, but possibly not as the principal source of their livelihood. They maintain that these changes clarify who should be licensed, eliminating a “gray” area in the law, ensuring that one aspect of firearms commerce is more adequately regulated.

William J. Krouse, Specialist in Domestic Security and Crime Policy

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS’s institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.