



Corporate Transparency Act

Reporting Essentials for Business Entities and Trusts

Are you a business owner of a registered entity such as a corporation, partnership, or LLC or the trustee or beneficiary of a trust that owns such an entity? If so, you may be subject to a reporting obligation under the Corporate Transparency Act (CTA).

Enacted on January 1, 2021, the CTA is a federal law aimed at curbing illicit activities such as money laundering, terrorist financing, and tax fraud. By mandating the disclosure of beneficial ownership information, the CTA seeks to enhance transparency and accountability in the corporate sector.

This article provides a summary of the purpose of the CTA, the entities subject to its filing requirements, compliance deadlines, and practical steps for business owners to adhere to the law. As a reminder, William Blair does not provide legal advice; you are encouraged to discuss your compliance requirements with your legal adviser.

Purpose of the Corporate Transparency Act

The primary objective of the CTA is to prevent and combat illegal activities by increasing transparency in corporate ownership. In this regard, the law requires certain entities to report information about their beneficial owners to the Financial Crimes Enforcement Network (FinCEN), a bureau of the U.S. Department of the Treasury. FinCEN's

centralized database of beneficial owners aims to deter the misuse of shell companies and other opaque business structures for illicit purposes.

Entities Subject to Filing Requirements

Under the CTA, a “reporting company” is defined as any corporation, limited liability company (LLC), or similar entity that is created by filing a document with a state or tribal authority. CTA reporting requirements apply to both domestic and foreign entities registered to do business in the United States. However, there are several exemptions, including:

- Large operating companies with more than 20 full-time employees and over \$5 million in gross receipts or sales.
- Certain regulated entities such as banks, credit unions, and insurance companies.
- Publicly traded companies and their subsidiaries.
- Tax-exempt entities, including nonprofits and charitable organizations.

The CTA defines a beneficial owner as an individual who holds a significant ownership interest in a company, either directly or indirectly. This includes those who have substantial influence over the company's decisions or operations, own at least 25% of the company's shares, or possess a similar level of control over the company's equity.

Compliance Deadlines

The CTA's reporting requirements came into effect on January 1, 2024. Companies existing prior to January 1, 2024, must file their initial reports by January 1, 2025. However, companies that are newly formed or registered in 2024 have 90 days from the date of formation or registration to file their reports. Businesses established on or after January 1, 2025, will have 30 days from notification or public announcement of their formation to submit their first report to FinCEN. It is important to note that any changes to the reported information must be updated within 30 days.

How Business Owners Can Comply

To comply with the CTA, business owners must submit a Beneficial Ownership Information (BOI) report to FinCEN. The report must include the following details for each beneficial owner:

1. Full legal name.
2. Date of birth.
3. Residential or business address.
4. A unique identifying number from an acceptable identification document (e.g., passport, driver's license).

Business owners should also ensure they have a system in place to track and update any changes in beneficial ownership promptly. Changes to a BOI's address, name due to marriage or divorce, or even a change to a driver's license may require an update to FinCEN within 30 days. Your legal adviser can help navigate the complexities of the CTA and avoid potential penalties for noncompliance.

Impact on Family Limited Partnerships, LLCs, and Estate Planning Vehicles

Family limited partnerships (FLPs), LLCs, and other estate planning vehicles are often used to manage and transfer wealth. These entities are not exempt from the CTA's reporting requirements if they meet the definition of a reporting company. This means that beneficial ownership information for these entities must be disclosed to FinCEN.

For estate planning purposes, it is crucial to identify all beneficial owners, which may include family members who hold significant ownership interests or control over

the entity. Failure to comply with the CTA can result in substantial fines and legal consequences.

Reporting Requirements for Trustees and Trust Protectors

Trusts that hold ownership interests in reporting companies are also subject to the CTA. Trustees, trust protectors, and beneficiaries may need to be reported as beneficial owners if they meet certain criteria. Specifically, trustees must be reported if they have substantial control over the trust's assets or if the trust owns at least 25% of a reporting company. Similarly, beneficiaries who have the right to withdraw assets or receive income from the trust may also need to be reported.

Penalties for Noncompliance

Noncompliance can result in high penalties and possible imprisonment. Entities that fail to report the required information about their beneficial owners face fines up to \$500 per day until the violation is corrected. Where noncompliance is found to be willful or based on fraudulent intent, criminal penalties may be imposed, including fines of up to \$10,000 and imprisonment for up to two years.

Conclusion

The Corporate Transparency Act represents a significant shift toward greater corporate transparency and accountability. By understanding the purpose of the CTA, identifying which entities are subject to its requirements, and adhering to the compliance deadlines, business owners can ensure they meet their legal obligations. Additionally, estate planners must consider the impact of the CTA on family limited partnerships, LLCs, and other vehicles to avoid potential pitfalls. Staying informed and proactive is key to navigating the complexities of the CTA and maintaining compliance.

Please consult your legal adviser for additional information.

Small Business Compliance Guide