

Understanding the Corporate Transparency Act

Starting January 1, 2024, domestic and foreign entities registered to do business in the United States will be subject to new beneficial ownership reporting requirements under the **Corporate Transparency Act (CTA)**. This legislation aims to combat money laundering, terrorism financing, and other illicit activities by requiring certain entities to disclose their beneficial owners.

What is the CTA?

Enacted by Congress in 2021 as part of the White House's United States Strategy on Countering Corruption, the CTA directs the U.S. Department of the Treasury's **Financial Crimes Enforcement Network (FinCEN)** to create a national registry of beneficial ownership information. On September 30, 2022, FinCEN issued a Final Rule implementing the CTA's reporting requirements.

Who Is Considered a Reporting Company?

The CTA defines two types of **Reporting Companies**:

- **Domestic Reporting Companies:** These include corporations, limited liability companies (LLCs), limited liability partnerships, or other similar entities formed by filing documents with a state secretary of state or similar office.
- **Foreign Reporting Companies:** These are entities formed under the laws of a foreign country that register to do business in any U.S. state, territory, or tribal jurisdiction.

Who Is Not Considered a Reporting Company?

While most for-profit companies must comply, certain entities are exempt from the CTA's reporting requirements, including:

- Large operating companies (more than 20 full-time employees and over \$5 million in gross sales)
- Publicly traded companies
- Inactive entities
- Investment companies
- Banks
- Not-for-profit entities
- Entities in specific highly regulated industries

Reporting Information

Reporting Companies must submit an online confidential report called the **Beneficial Ownership Information Report (BOIR)**. This report must include identifying information for all beneficial owners, individuals who own or control at least 25 percent of the entity or who exercise substantial control over it.

Key points regarding beneficial ownership:

- The 25 percent ownership threshold includes options that are considered exercised.
- Interests convertible into equity or voting rights are treated as exercised.

- Any put, call, straddle, or similar options will be included unless held by others without the Reporting Company's knowledge.

How/Where Do I Report?

Beneficial ownership information will be submitted through an electronic filing system known as the **Beneficial Ownership Secure System (BOSS)**, anticipated to be live by the January 1 commencement date.

Reporting Deadlines

The CTA's reporting requirements take effect on January 1, 2024:

- **New Reporting Companies:** Entities formed on or after January 1, 2024, must file an initial report within 90 calendar days of receiving notice of their registration.
- **Existing Reporting Companies:** Those formed before January 1, 2024, must file their initial report by January 1, 2025.
- **Changes in Reporting:** Any changes to previously reported information must be reported within 30 calendar days.

Penalties for Noncompliance

Failure to comply with the CTA reporting requirements can result in significant penalties. The CTA imposes civil and criminal penalties for willful noncompliance or for providing false information. Civil penalties can include daily fines of \$500, with a maximum of \$10,000. Criminal penalties may involve imprisonment for up to two years.

Compliance Assessment

To determine if you are subject to the new Corporate Transparency Act reporting requirements, consider the following:

1. Are you (or your trust, if applicable) a shareholder in a corporation (not publicly traded)?
2. Are you a director or officer of such a corporation?
3. Do you (or your trust) own an interest in an LLC?
4. Do you (or your trust) own an interest in a limited partnership?
- 5.
6. Is your ownership interest in any of these entities at least 25 percent?

For more detailed information about the Corporate Transparency Act and its implications, visit the following resources: [FinCEN - BOI Informational Brochure](#) and [FinCEN - BOI](#).

We recommend that entities act promptly to ensure compliance with these new regulations, as the penalties for non-compliance can be severe.