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Corporate Transparency Act Requires New Ownership Disclosures

As a result of the Corporate Transparency Act (the “Act”) enacted by Congress in 2021, beginning January 1, 2024, many entities are now required to disclose certain personal information of their beneficial owners. The Act is intended to reduce the use of shell companies to launder money, but its broad application will result in unprecedented reporting obligations for most domestic corporate entities.

Entities that are required to report: Any corporation, limited liability company or other entity that is created by the filing of a document with a secretary of state or similar office is required to disclose certain information about its beneficial owners to the Treasury Department’s Financial Crimes Enforcement Network (FinCen). Twenty-three types of entities are exempt from reporting, such as tax-exempt entities and large operating companies.

Identification of a beneficial owner: A beneficial owner includes each individual who (i) exercises substantial control over the company or (ii) owns or controls at least 25% of the ownership interests of a reporting company. Individuals are considered to exercise “substantial control” over a company if they serve as a senior officer or can direct or have substantial influence over important decisions made by the entity. Ownership interests include, but are not limited to, voting and nonvoting equity, voting rights, capital or profit interest, convertible instruments, options (including employee stock options), warrants, puts and calls.

Information that is reported: The following must be reported for each beneficial owner and individual submitting the report: (i) legal name; (ii) birthdate; (iii) address and (iv) an identifying number from a driver’s license, passport or other approved document, as well as an image of such document. In lieu of providing this required information on each beneficial ownership information report, an individual may instead apply for a FinCen identifier, which is a unique identification number issued by FinCen. The FinCen identifier is then substituted for an individual’s personal information in a beneficial ownership report.

Timing of reports: For reporting companies created before January 1, 2024, the initial report is due by January 1, 2025. For reporting companies created after January 1, 2024 but before January 1, 2025, the initial report is due within 90 days of creation of the entity. Any reporting (over)

company created after January 1, 2025 must file an initial report within 30 days of creation of the entity.

Companies must also report any change in reported information within 30 days of such change. This includes change in ownership interests, management or home or business address. Inaccurate reported information must be corrected within 30 days after the company becomes aware of, or has reason to know of, the inaccuracy.

Non-compliance: Failure to comply with the Act or providing false information may result in civil penalties of up to \$500 for each day that a violation continues or has not been remedied, fines up to \$10,000 and criminal penalties of imprisonment not to exceed two years.

WARNING: FinCen has advised of recent fraudulent attempts to solicit information from individuals and entities who may be subject to reporting requirements under the Act. The fraudulent correspondence may ask a recipient to click on a URL or scan a QR Code. These communications are fraudulent. FinCen does not send unsolicited requests.

The Corporate Transparency Act represents a fundamental change in the disclosure of corporate ownership. Entities both existing and to be created in the future are encouraged to ensure compliance with their reporting obligations. Please reach out to your contact at Schenck, Price, Smith & King, LLP for assistance in complying with the Act.

This Alert is designed to keep you aware of recent developments in the law. It is not intended to be legal advice, which can only be given after the attorney understands the facts of a particular matter and the goals of the client.

**Contact us for more information about this alert or any
Corporate and Business Law matter.**



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