

Corporate Transparency Act Reporting Begins January 1, 2024 for Small and Midsized Businesses

12/4/2023

By: Joshua M. Wilson

Practices: Corporate, Finance & Acquisitions

Corporate Transparency Act

Recently, the U.S. government passed the Corporate Transparency Act (“CTA”) to increase transparency within business entities and combat money laundering, tax fraud, and other national security threats. The CTA requires qualifying business entities to disclose certain information about the entity’s ownership by submitting a Beneficial Ownership Information report (“BOI report”) to the Financial Crimes Enforcement Network (“FinCEN”).

Who has to file?

The CTA requires all “Reporting Companies” to file a BOI report. A “Reporting Company” is any domestic business entity (corporation, LLC, or otherwise) that is created by filing a document with a U.S. state or any foreign entity that registers to do business within the United States by making a filing with a U.S. state. However, even if a business entity is considered a Reporting Company, certain entities are exempt from filing a BOI report.

Exempt businesses

Twenty-three (23) specific types of Reporting Companies are exempt from filing a BOI report. Two types of exempted businesses of note are (1) large business entities that conduct business at a physical location in the United States and employ 21 or more full-time employees in the U.S and (2) tax-exempt entities. Notwithstanding, qualifying to be a large business or tax-exempt entity requires satisfying other requirements under the CTA and thus, determining whether your entity is exempt from filing a BOI report is subject to further analysis and depends on an entity’s individual circumstances in addition to its size.

When must the report be filed?

Reporting Companies that are created or registered to do business before January 1, 2024 are required to submit a BOI report between January 1, 2024, and January 1, 2025. Any Reporting Companies that are formed on or after January 1, 2024 are required to file a report within 30 days of the entity’s creation or registration.

What needs to be reported in a BOI report?

Reporting companies who do not qualify for an exemption must submit a BOI report with information regarding the company and each Beneficial Owner (i.e., individuals who, directly or indirectly, exercises substantial control over the company or owns or controls at least 25 percent of the ownership interest of the company). Information that must be reported includes, but is not limited to, the name of the entity and each Beneficial Owner, current U.S. address of the entity and each Beneficial Owner, jurisdiction of formation or registration, and IRS Tax Identification Number (“TIN”).

Failure to report. Failure to file a BOI report may result in civil or criminal penalties. Such penalties include civil penalties of up to \$500 for each day that the entity fails to file a report and criminal penalties such as imprisonment of up to two years and/or a fine of not more than \$10,000.

As mentioned, determining whether your entity is a “Reporting Company” or who is a “Beneficial Owner” is fact-specific and may be difficult. Accordingly, please contact Joshua Wilson (jwilson@masudafunai.com), Jennifer Watson (jwatson@masudafunai.com) or any member of Masuda Funai’s Corporate, Finance, and Acquisitions group with any questions.

For additional information about preparing and submitting a Beneficial Ownership Information report, please visit the FinCEN website, which includes other helpful resources (link).