DIAMOND STATE
FINANCIAL GROUP

THE CORPORARE TRANSPARANCY ACT: WHAT'S IMPORTANT TO KNOW?

WHITE PAPER

ARE YOU READY FOR JANUARY 1, 2024?

The Corporate Transparency Act (CTA), enacted in 2021, was passed to enhance transparency in entity structures and ownership to combat money laundering, tax fraud, and other illicit activities.

Beneficial Ownership Information (BOI) Reporting begins January 1, 2024. You might be looking for more information on how it affects you and what reporting is required. Read on to learn more.

DIAMOND STATE FINANCIAL GROUP

900 Prides Crossing
Newark, DE 19707
(302) 366-0366

SOURCE: THOMPSON REUTERS

What is the Corporate Transparency Act and who does it affect?

The Corporate Transparency Act (CTA), enacted in 2021, was passed to enhance transparency in entity structures and ownership to combat money laundering, tax fraud, and other illicit activities. It is designed to improve business activity transparency by reporting Beneficial Ownership Information (BOI) and is particularly targeted to smaller businesses.

Who needs to file?

Reporting companies are identified as either domestic or foreign:

- Domestic reporting companies are corporations, LLPs, or any other entity created by filing a document with a secretary of state or any similar office under the law of a state or Indian tribe.

- Foreign reporting companies are corporations, LLCs, or other entities formed under the law of a foreign country that is registered to do business in any state or tribal jurisdiction by filing a document with a secretary of state or any similar office. Sole-proprietorships that don't use a single-member LLC are not considered a reporting company.

Reporting companies typically include:

- Limited liability partnerships
- Limited liability limited partnerships
- Business trusts
- Most limited partnerships, where entities are generally created by a filing with a secretary of state or similar office
- **Exemptions include** securities issuers, domestic governmental authorities, banks, and many more that don't fall into the above categories.

Beneficial Owners and Company Applicants Defined

Beneficial owners

A **beneficial owner** can fall into one of two categories defined as any individual who, directly or indirectly, either:

1. Exercises substantial control over a reporting company, or
2. Owns or controls at least 25% of the ownership interests of a reporting company.

Having two categories is designed to close any loopholes and ensure all owners are identified. The key difference is that beneficial ownership is categorized as those with ownership interests reflected through capital and profit interests in the company.

The beneficial owners must report to FinCEN their name, date of birth, address, and unique identifier number from a recognized issuing jurisdiction and a photo of that document. If an individual decides to file their information to FinCEN directly, they may be issued a “FinCEN identifier” which can be provided on a BOI report instead of the required information.

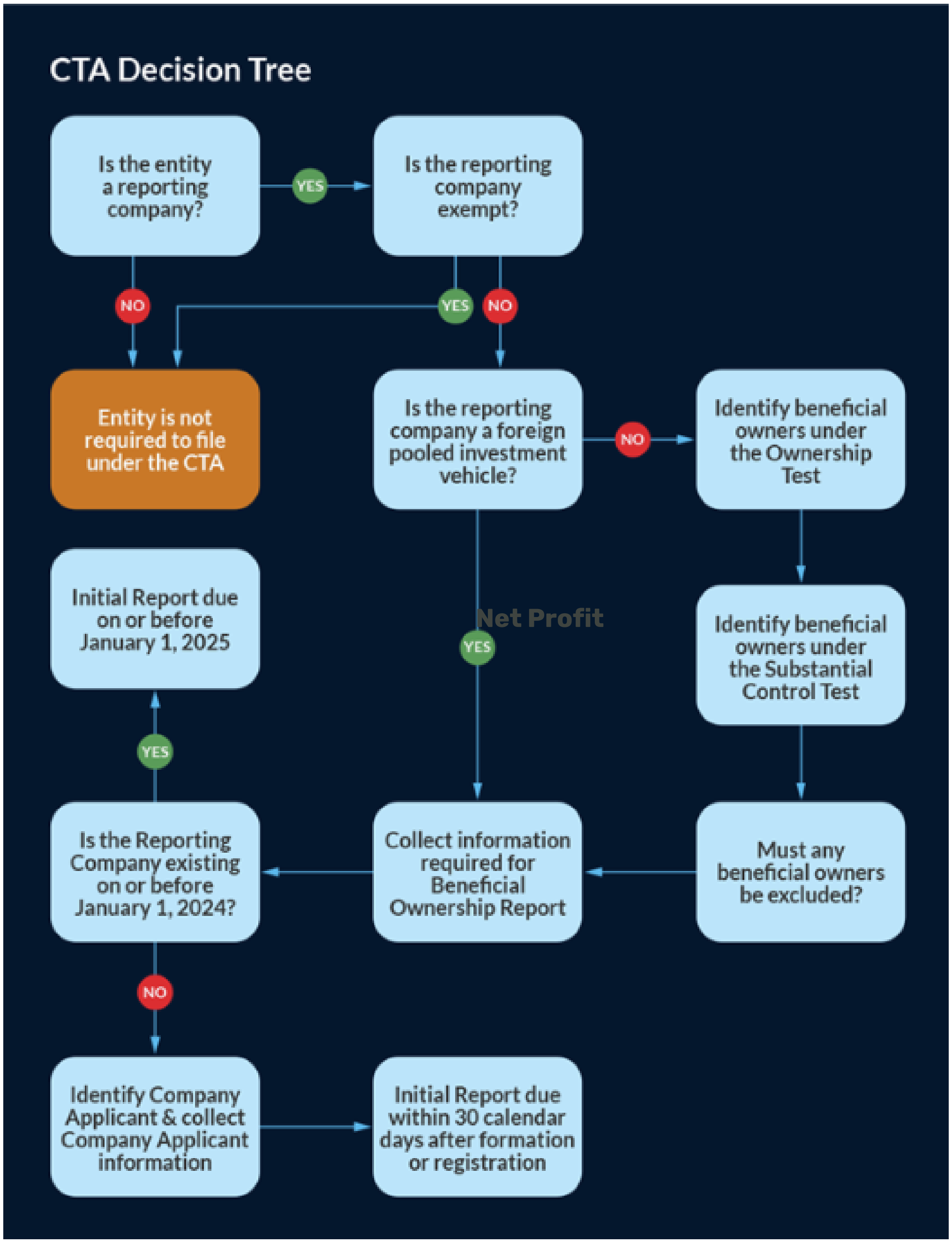
Company applicants

Company applicants can only be:

- The individual who directly files the document that creates the entity, or the document that first registers the entity to do business in the United States.
- The individual is primarily responsible for directing or controlling the filing of the relevant document by another.

This responsibility may fall under the scope of advisory services for an accounting professional. However, the report does not require information on the company applicant. This is an important consideration when defining the scope of engagement for advisory services with a client.

Examples of reporting companies call to action (CTA)



SOURCE: LEXISNEXIS

When do reports need to be filed for the Corporate Transparency Act?

The Corporate Transparency Act comes into effect on January 1, 2024. Reporting companies that are in existence on the effective date must file their initial reports within one year.

Reporting companies created after the effective date have 30 days after receiving notice of their creation or registration. However, FinCEN has proposed to extend the initial filing deadline for BOI reports from 30 to 90 days for entities created or registered in 2024.

Reports must be updated within 30 days of a change to the beneficial ownership, e.g., through the sale of a business, merger, acquisition, or death, or 30 days upon becoming aware of or having reason to know of inaccurate information previously filed.

Why take this seriously?

Penalties: The penalties for noncompliance include civil penalties up to $500 per day, and criminal penalties up to $10,000 and/or two years of imprisonment.

What should you be doing now?

- Take a proactive approach now by reaching out to your financial advisor, attorney and accountant.
- If you need a referral to an attorney or accountant, please let us know.
- Once you are in touch with your attorney and accountant, have them prepare a checklist and implement an organizing system for you.