Corporate Transparency Act: LLCs and Other Entities Required to Report Ownership and Control Information to the Federal Government

On January 1, 2021, Congress passed the Corporate Transparency Act ("CTA") to combat the use of corporate structures in money laundering and other financial crimes. Under the CTA, ownership interests in LLCs, corporations and other similar entities may need to be reported to the federal government. Fortunately, these reporting requirements will take effect on January 1, 2024, so there is time to prepare.

What entities will be subject to the reporting requirements?

The statute is very broad in its application. It applies to domestic corporations, LLCs and other similar entities, as well as to foreign entities registered to do business in the United States.

There are some exceptions to the new reporting requirements. The new rules do not apply, for example, to charities, publicly traded companies, and large private operating companies (that is, companies that have more than 20 full-time employees, report gross receipts or sales of more than $5 million, and have a physical, operating presence within the United States).

What information must be reported?

All reporting entities must submit a report to the federal government about some (but not all) of their owners and managers.

Specifically, this report must include information about every individual who owns at least 25% of the entity. The report also covers managers, senior officers or directors of the entity, as well as anyone who has the right to appoint them.

For each person, the report must include the person's name, date of birth, residential address, and government I.D. number, along with a copy of the individual's I.D. For newly-formed entities, this information must also be submitted for the person who filed the entity's formation documents.

The law requires the Treasury to maintain this information in a secure, nonpublic database that is meant to be available only to authorized government authorities for limited purposes.

Does the new law apply to trusts?

Trusts do not have to file reports under the new law.

However, if a trust is an owner of a reporting company (such as an LLC or a corporation), that company may need to report information about the trust's grantor, beneficiaries and trustees. This means that clients may need to disclose additional information about their family trusts.

When will reporting be required?

The new law applies to both existing and newly-formed entities.

Existing entities (those formed before January 1, 2024) have until January 1, 2025 to submit their initial reports.

Newly-formed entities (those formed on or after January 1, 2024) must submit initial reports within 30 days of formation.

In addition, changes to previously reported information must be reported to the government within 30 days of the change. For example, a person who has been included in a CTA report must inform the reporting entity any time he or she moves, so that the entity can report the new address to the government within the 30-day period.

What are the penalties for failure to report?

Failure to comply with the CTA reporting requirements may result in civil penalties of up to $500 per day. In extreme cases, the government may seek criminal penalties of up to $10,000 or even imprisonment for up to 2 years.

Next steps

Clients who have created LLCs and corporations as part of their estate planning may now be required to report personal information to the federal government. We encourage you to contact your Choate team to discuss developing best practices for complying with the new law.

Please contact a member of Choate's Wealth Management Group if you are interested in exploring any of these opportunities further.

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