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The CTA Is Here. Are You Ready? Do You Know Your Duties?

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The Corporate Transparency Act went into effect on January 1, 2024 and it may affect you.

In an effort to gain visibility into ownership and control of business entities operating in the United States, and the potential for shell companies engaged in money laundering, evasion of sanctions, financing of terrorism, narco- and human-trafficking and other illegal activities, the federal Corporate Transparency Act (“Act”), which comes into effect *within less than a month*, will require most newly formed and smaller businesses to file reports with the federal Financial Crimes Enforcement Network (FinCEN) which disclose personal information on significant direct and indirect owners, as well as controlling individuals such as officers and directors. Affected businesses include most types of limited liability companies, corporations, some limited partnerships, foreign entities registered in the U.S., and more. Domestic “reporting companies” formed (and foreign reporting companies which first register to do business in a state) in 2024 or later will have to file such disclosures in short order after formation or registration, and companies formed or registered before January 1, 2024 will have until January 1, 2025 to make such filings.

The determination of whether a company must file reports with FinCEN, and as to which individuals' personal information must be submitted, can be very complicated, and if done improperly can subject the company and certain of its officers, directors, owners and, in some cases, its attorneys, to possible civil and criminal penalties. Further complicating compliance requirements is the duty to update existing filings within thirty (30) days of any changes to information reported earlier, such as percentage ownership, or changes in senior officers or directors. And at present, few companies' governing documents provide clear paths to obtain information, or compel compliance, from reluctant individuals whose information must be reported to FinCEN.

Make no mistake: compliance with the Corporate Transparency Act will be a significant lift for the affected organizations, their direct and indirect owners, officers and directors, and the law firms that assist them.

With the advent of required compliance coming on January 1 for newly formed organizations, it is prudent to seek legal counsel as soon as possible to understand how the CTA may apply and the compliance documentation that will be required.

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