



Corporate Transparency Act: Big Brother is Now Watching Small Businesses

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Enacted by Congress on January 1, 2021, the Corporate Transparency Act (CTA) is set to dramatically change reporting requirements for many small -and medium-sized businesses. Unlike similar reporting laws, the CTA will mandate that qualifying businesses self-report information about the people who created, own, lead, or have influence over them, as well as information about the business itself. All the information will be added to a federally managed database for law enforcement purposes.

Unless an exception applies, a "reporting company" under the CTA is any company that is: (i) created by the filing of a document with a secretary of state or a similar office under the law of a state or Indian tribe, or (ii) is a foreign company registered to do business in the U.S. The most common exemption to the CTA will likely be the "large business" exemption: a company with more than 20 full-time employees, a U.S. physical office, and at least \$5 million in gross receipts on the prior year's tax return.

Reporting companies will have to upload information on the company "applicant," the company itself, and its "beneficial owners." Beneficial owners are not only owners of the company but those who meet certain "substantial control" tests, including senior officers. Individuals will have to report their name, date of birth, and address, and submit a copy of their state ID, driver's license, or foreign passport. The information must be updated on an ongoing basis and, usually, within 30 days of any change.

Unfortunately, the CTA has both civil and criminal penalties, including fines of \$500 per day up to \$10,000 and criminal penalties of up to two years in prison. How these penalties will be enforced remains uncertain at this time and is the subject of future rulemaking.

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For more information on the Corporate Transparency Act, Foster Swift will conduct educational programs with LRCC in January and March of 2023. In the interim, if you have questions, contact Robert Hamor at rhamor@fosterswift.com or visit www.fosterswift.com/f-corporate-transparency-act-resources.html.

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