

# The U.S. Corporate Transparency Act demystified

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- 1. U.S. Corporate Transparency Act is part of a global push for more transparency in private markets, in step with the EU and UK.**
- 2. In this article we explain the rules of Beneficial Ownership, one of the key requirements of the Act.**
- 3. We explore the entities that are exempt and how to ensure your company is compliant.**

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*The Corporate Transparency Act (CTA or the Act) is designed to apply broadly across businesses operating in the U.S., but many companies do not have the expertise or structures in place to meet these new reporting standards. [Ore Adegbotolu](#) and [Dave Naab](#) explain how to check the requirements and your liability.*

The Act's requirements are similar in scope and purpose to those that are already in operation across the European Union and in the United Kingdom (you can read more on this in our recent article, [Combatting economic crime - new rules ratified in UK](#)). For those managers with a presence in both the U.S. and Europe, there will be additional considerations, which a fund administrator with multi-jurisdictional experience can help you navigate. For example, those with Limited Liability Companies (LLCs), or planning to raise such entities.

Here's an overview of what the Act aims to achieve, the timelines, what the requirements are, and where to find help.

## **The essence of the CTA**

The enactment of this law in the United States is the latest shift in global reporting regulation towards deepening accountability across financial services more generally.

Its purpose is to tackle concerns over money laundering, tax evasion, and other financial crimes, and marks a significant shift towards promoting openness and honesty in business transactions. The core objective is to improve transparency around the individuals who ultimately own or control corporations, lifting the veil of anonymity that has, at times, facilitated illicit activities.

Read the full Act here: [Beneficial Ownership Information Reporting | FinCEN.gov](#)

## **How reporting works**

The Act mandates that most legal entities registered to do business in a State must disclose information relating to its owners, officers, and controlling persons with the Financial Crimes Enforcement Network (FinCEN) to comply with the CTA.

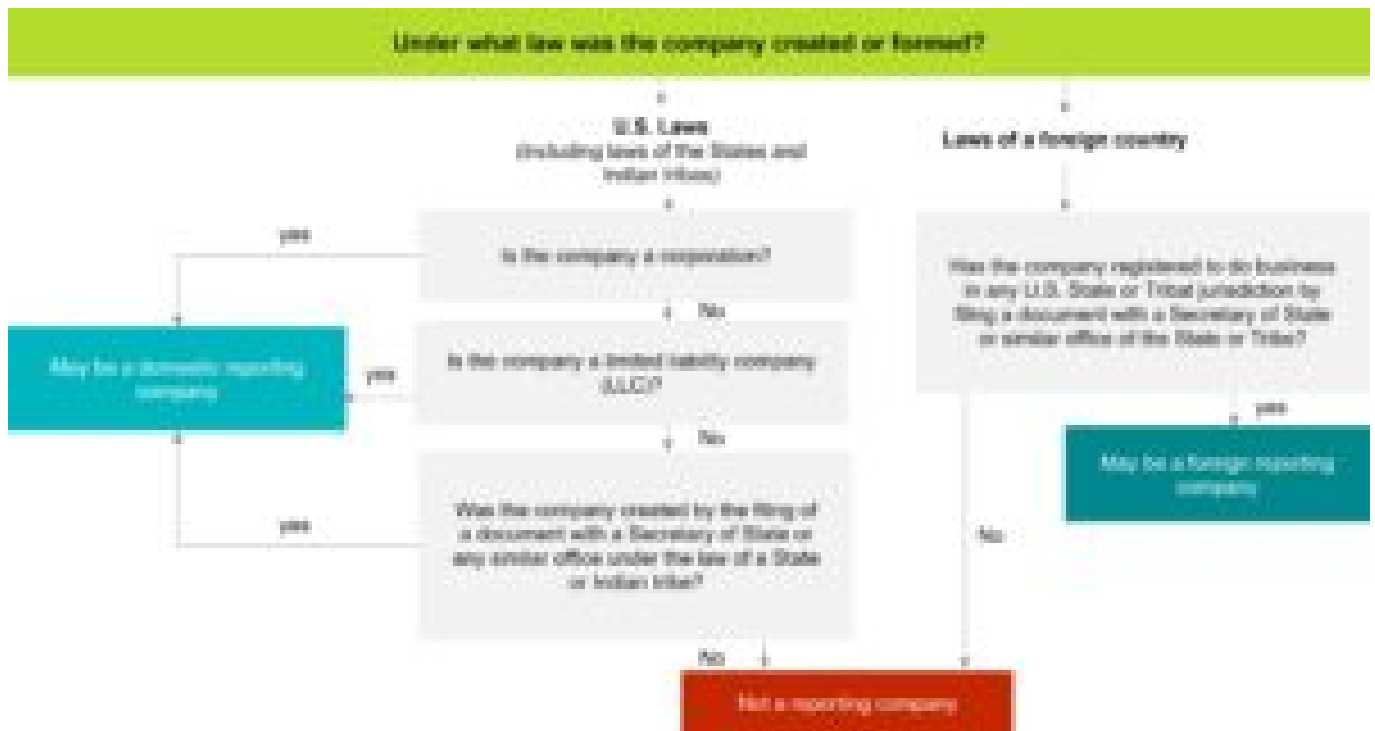
## **Below are the 4 key requirements of the Act:**

### **1. Reporting of Beneficial Ownership Information**

Corporations falling within the purview of the Act must provide a comprehensive report containing information about their beneficial owners. This includes details such as names, addresses, birthdates, and unique identification numbers. This information, though still shielded from public view, will now be accessible to U.S. authorities, a key component of the updated corporate transparency landscape.

*What is beneficial ownership?*

This refers to anyone who owns 25% or more of a business or entity, or anyone who has substantial control over that entity.



## 2. Timely Updates and Changes

The Act emphasizes the importance of keeping the disclosed information current. Businesses are required to promptly report any changes in beneficial ownership, bringing the U.S. up to date and in line with other beneficial ownership regimes.

### *When must initial disclosures be made?*

Businesses created or registered on or after the rule's effective date of January 1, 2024, originally had to file initial Beneficial Ownership Information reports with FinCEN within 30 calendar days of notice of their creation or registration. However, an amendment by FinCEN extends that filing deadline from 30 calendar days to 90 calendar days for businesses created or registered on or after January 1, 2024, and before January 1, 2025, to give those entities additional time to understand the new reporting obligation and collect the necessary information to complete their filings. Businesses created or registered on or after January 1, 2025, will continue to have 30 calendar days to file.

### *What are the penalties for failing to meet the requirements?*

The consequences of non-compliance are high, up to \$500 a day for non-compliance, with penalty fines up to \$10,000 or two years in prison.

### **3. Information Access for Authorities**

To facilitate robust oversight, the Act empowers relevant government agencies to access the disclosed beneficial ownership information. This access enables authorities to conduct thorough investigations into potential financial crimes, ultimately fostering a more secure economic environment.

*What is the scope of access?*

The initial notice of proposed rule-making was published on December 15, 2022, however the regulations have not yet been made.

### **4. Business Exemptions**

Certain qualifying businesses may be exempt from some reporting requirements, easing the compliance process for enterprises with limited resources. Also, many businesses already have existing reporting requirements and some of these businesses are impractical for money laundering.

*Which entities are exempt?*

There are 23 types of entities which are exempt from the reporting requirements. Most are regulated entities already required to report beneficial ownership information to regulators.

Large operating companies with 20 or more full-time employees in the U.S.; an operating presence at a physical office in the US; and have filed a tax return in the previous year showing \$5million or more in U.S.-sourced gross turnover.

The following table summarizes the 23 exemptions:

Exemption No.	Exemption short title
1	Securities reporting issuer
2	Governmental authority
3	Bank
4	Credit union
5	Depository institution holding company
6	Money services business
7	Broker or dealer in securities
8	Securities exchange or clearing agency
9	Other Exchange Act registered entity
10	Investment company or investment adviser
11	Venture capital fund adviser
12	Insurance company
13	(State-licensed) insurance producer
14	Commodity Exchange Act registered entity
15	Accounting firm
16	Public utility
17	Financial market utility
18	Private investment vehicle
19	Tax-exempt entity
20	Entity assisting a tax-exempt entity
21	Large operating company
22	Subsidiary of certain exempt entities
23	Insider entity

## How to navigate compliance

While the CTA introduces a commendable stride towards greater accountability, it also presents businesses with compliance challenges. Adapting to new reporting requirements and ensuring accurate disclosure necessitates careful attention to detail. Also, using an experienced fund administrator can help streamline the process of complying with this Act.

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