

Featured Blogs of the Month

Blogs selected for this column are published through the State Bar of Wisconsin's section blogs as well as WisLawNOW, the State Bar's aggregated community of Wisconsin legal bloggers.

The Corporate Transparency Act Is Coming, Is Your Company Ready?

BY COLLIN SCHAEFER

The Corporate Transparency Act will fundamentally change corporate reporting requirements. The Act takes effect on Jan. 1, 2024.

Two days before Christmas Eve 2020, I drafted a blog post regarding the Corporate Transparency Act (CTA). As of Jan. 1, 2024, the CTA will be enforced for all new and existing entities. If you're interested in what the CTA means for your business, please read on.

The CTA is set to fundamentally change corporate reporting requirements, impacting millions of businesses in 2024. The Act, designed to thwart illicit financial activities and enhance national security, mandates thorough disclosures of beneficial ownership information.

Who Does the CTA Impact? The CTA applies to a broad spectrum of entities, encompassing both domestic and foreign reporting companies. While there are many exemptions (more on that below), the default assumption on the part of any business owner should be – “my company needs to report under the CTA.”

Exemptions Under the CTA

While the CTA casts a wide net, certain entities are exempt from its reporting requirements. These include securities issuers, banks, credit unions, and various financial entities (which are often reporting the required information in other ways, already). The Act provides a detailed list of 23 exempt entities, offering an outline of which businesses are exempted from compliance.

Understanding Beneficial Owners

The linchpin of the CTA revolves around beneficial owners. These are individuals who either directly or indirectly wield substantial control over a company or own 25% or more of its equity interests. Indicators of substantial control encompass roles like senior officers and individuals with authority over significant decisions.



Required Information for Reporting

Reporting companies must provide information on beneficial owners. This includes their full legal name, date of birth, residential address, and a unique identification number from a valid U.S. passport, license, or ID card. Additionally, companies must report their legal name, trade names, principal business address, jurisdiction of formation, and taxpayer identification number.

Compliance Timeline

Companies established or registered before Jan. 1, 2024, have until Jan. 1, 2025, to file their initial report. Those created after Jan. 1, 2024, must file within 30 days of receiving notice of creation or when the state's secretary of state publicly announces the company's formation. Moreover, reporting companies must update FinCEN [the Financial Crimes Enforcement Network, a bureau of the U.S. Department of the Treasury] within 30 days of any changes in their information or that of their beneficial owners.

Penalties for Non-Compliance

Non-compliance with the CTA carries substantial penalties. Violators can face fines of up to \$500 per day for each violation, with a maximum fine of \$10,000 per willful violation. Additionally, the Act allows for imprisonment and other criminal penalties for egregious violations.

What Actions Should Businesses Take?

1) **Avoid Procrastination:** Delaying compliance efforts is not an option. Businesses should start thinking about the reporting process now.

2) **Amend Governing Documents:** Consider amending corporate governance documents (like Operating Agreements and Bylaws) to mandate beneficial owners' reporting obligations. Clear internal guidelines can make the reporting process much easier.

Conclusion

The CTA is a game-changer for the U.S. and will represent our first attempt at creating a national corporate database and record of who the owners of those companies are.

[*Editor's Note:* This article was the most-read blog post in the WisLawNOW Digest for Oct. 11, 2023. WisLawNOW is a community of Wisconsin legal bloggers, established by the State Bar of Wisconsin in partnership with LexBlog. Through this syndicated network, Wisconsin legal bloggers reach a wider audience and build their reputations in their areas of practice, while helping expand understanding of the law, all in one place. Want to join? Go to <https://www.wislawnow.com/join/>] **WL**



Collin Schaefer, U.W. 2014, practices with Ogden Glazer + Schaefer LLC, Cedarburg.
cfschaefer@ogs.law

Learn More About the Corporate Transparency Act

Dive deeper with the webcast seminar "Your Guide to the Corporate Transparency Act," presented by State Bar of Wisconsin PINNACLE®. Presenters Kent Schlienger, Sam Wayne, and Timothy Pierce will help attendees develop a solid understanding of:

- The CTA's impact on your role in the formation of entities;
- How reporting companies, beneficial owners, and company applicants are defined in the CTA;
- Key dates and time periods for initial and ongoing reporting;
- Which entities are required to report and which are exempt;
- What information must be reported and when; and
- What happens if an entity's prior exemption expires.

The webcast seminar (3 CLE) will run on the following dates from 8:30 to 11:25 a.m.: Nov. 9, Nov. 17, Nov. 21, Nov. 27, Dec. 2, Dec. 7, Dec. 13, Dec. 19, Dec. 29, Jan. 10, and Jan. 25. For more information and to register, visit marketplace.wisbar.org. **WL**

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