

THE JOURNAL RECORD

Gavel to Gavel: CTA may affect your business

COMMENTARY

By: [Contributing Author](#) November 30, 2022



Jeffrey D. Hassell



Bailey Barnes

The U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) recently finalized legislation mandating the disclosure of beneficial ownership information under the Corporate Transparency Act. The CTA, which is part of the Anti-Money Laundering Act of 2020, purports to prevent illicit activities often associated with shell companies such as money laundering, terrorist financing, and tax fraud.

The broad scope of the CTA will affect many small businesses, who are called “reporting companies” under the CTA. In very general terms, take these three steps to ensure your company is ready to comply.

Step 1: Determine whether your company is subject to the CTA.

Domestic companies formed under state or tribal law and foreign companies that are registered with a state or tribe will be subject to the CTA, with several exceptions. The CTA's most notable exception is a “large reporting company,” which is a company that has an operating presence at a physical U.S. office, more than 20 full-time employees, and greater than \$5 million in gross receipts or sales. Other entities already subject to regulation – such as publicly traded companies and banks – are also exempt from CTA disclosures. In addition, many nonprofit organizations are exempt. Notably, wholly owned nested companies are not subject to disclosure. Majority or partially owned nested companies, however, must comply with the CTA.

Step 2: Determine the beneficial owners of your company.

If your company is subject to the CTA, you will ultimately need to report its “beneficial owners.” The CTA expansively defines “beneficial owner” to include any person owning at least 25% of the ownership interests in the reporting company or exercising “substantial control.” This can include owners of traditional equity interests, senior officers, and those who exercise decision-making powers over important matters.

Step 3: Determine whether to create your new company prior to the Jan. 1, 2024 effective date.

The CTA becomes effective on Jan. 1, 2024. Reporting companies created after this date generally must disclose beneficial ownership information within 30 days of the first notice of

THE JOURNAL RECORD

their creation or registration. Notably, reporting companies in existence before the effective date are not required to disclose beneficial ownership information until Jan. 1, 2025. As a result, if you are contemplating creating an entity that will be considered a reporting company, creating it before the effective date will allow for an additional year before reporting is required.

For most, the CTA will not pose a substantial burden. Nevertheless, it is never too early to prepare to comply.

Jeffrey D. Hassell and Bailey Barnes are attorneys with [GableGotwals](#).

[Gavel to Gavel: CTA may affect your business | The Journal Record](#)