



New Reporting Requirements for Small and Medium-Sized Businesses

As we approach the dawn of a new year, business owners across various industries are gearing up for significant changes that require businesses and entities alike to begin reporting to the Financial Crimes Enforcement Network (FinCEN). The introduction of the new Corporate Transparency Act reporting requirements, effective January 1, 2024, is expected to impact millions of small and medium-sized business entities. These rules aim to combat financial crimes by providing crucial information about the identities of true beneficial owners of limited liability companies (LLCs), general partnerships, limited partnerships, corporations, and even trusts.

The Scope and Expected Impact

In its first year alone, approximately 32.6 million small and medium-sized business entities are projected to be affected by the new reporting requirements. This number is expected to grow, with an additional 5 million companies expected to be impacted annually from years 2 to 10. The scope of these rules is extensive, encompassing nearly all closely-held entities. FinCEN estimates that 32 million entities will be subject to reporting in the inaugural year.

Understanding the Purpose

The primary goal of these new reporting requirements is to empower FinCEN with the necessary information to combat financial crimes effectively. By gaining insights into the identities of beneficial owners of closely-held entities, authorities aim to enhance transparency and reduce the risk of illicit financial activities, such as money laundering and fraud.

Key Reporting Details

Entities subject to these reporting requirements must adhere to specific guidelines when submitting reports to FinCEN. The information to be provided includes details about the company, its beneficial owner(s), and the person(s) who actually formed the entity. The reporting process varies based on the formation date of the entity:



Entities Formed Before January 1, 2024:

- Must submit their first report by January 1, 2025.
- Should continue reporting annually.
- Are not required to report information about the person(s) who formed the entity.

Entities Formed on or After January 1, 2024:

- Must submit initial report within 30 days after formation.
- Must continue reporting annually.
- Must report information about the person(s) who formed the entity.

A variety of information must be included in these reports, covering company details, beneficial owner information, and applicant particulars. Our team has compiled a simple summary outlining the details to get your entity on the road to compliance.

Exemptions and Penalties

Certain entities, such as publicly traded companies, banks, credit unions, governmental entities, and insurance companies, are excluded from these reporting requirements. Furthermore, entities with at least \$5,000,000 in gross revenue and at least 20 full-time employees and have a physical presence in the U.S. are exempt. Failure to comply with these regulations can lead to civil penalties of up to \$10,000 and criminal penalties of up to 3 years in prison.

Preparing for the Change

With the new reporting requirements set to take effect, business owners must proactively understand obligations and ensure compliance. While exemptions exist, a significant number of entities, including those involved in real estate (whether passive or active), private fund management, individual and family office investment vehicles, and smaller private companies, will be required to submit beneficial ownership reports. Staying informed and taking the necessary steps to meet these requirements will be crucial for business owners aiming to navigate this new landscape successfully.

No matter when your entity was formed, do not wait until the deadline is upon you. Contact your trusted CPM attorney or any member of our Business Law or Family Wealth and Estate planning team today. Our experts will ensure that you are compliant and well-informed about the key reporting details.