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CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

September 24, 2024

Dear Client,

The Corporate Transparency Act ("CTA") was enacted January 1, 2021, as part of the National Defense Authorization Act, representing the most significant reformation of the Bank Secrecy Act and related anti–money laundering rules since the U.S. Patriot Act. The CTA is intended to address and guard against money laundering, terrorism financing, and other forms of illegal financing by mandating certain entities (primarily small and medium size businesses) to report "beneficial owner" information to the Financial Crimes Enforcement Network ("FinCEN").

The CTA authorizes FinCEN, a bureau of the U.S. Treasury Department, to collect, protect, and disclose this information to authorized governmental authorities and to financial institutions in certain circumstances.

Our firm is sending you this communication to provide you with some general information regarding the new reporting rules as well as initial steps you should take to address the implications of the CTA to your organization.

Below is some preliminary information for you to consider as you approach the implementation period for this new reporting requirement. This information is meant to be general-only and should not be applied to your specific facts and circumstances without consultation with competent legal counsel and/or other retained professional adviser.

What entities are required to comply?

Entities required to comply with the CTA ("Reporting Companies") include corporations, limited liability companies (LLCs), and other types of companies that are created by a filing with a Secretary of State ("SOS") or equivalent official. The CTA also applies to non-U.S. companies that register to do business in the U.S. through a filing with a SOS or equivalent official. Since the definition of a domestic entity under the CTA is extremely broad, additional entity types could be subject to CTA reporting requirements based on individual state law formation practices

Are there any exemptions from the filing requirements?

There are 23 categories of exemptions. Included in the exemptions list are publicly traded companies, banks and credit unions, securities brokers/dealers, public accounting firms, tax-exempt entities and certain inactive entities, among others. These are not blanket exemptions and many of these entities are already heavily regulated by the government and thus already disclose their information to a government authority.

Another notable exception is **"large operating entities" are exempt from filing**. To qualify for this exemption, the company must meet **ALL THREE** of the following requirements:

- Employ more than 20 people· in the U.S.;
- Have reported gross revenue (or sales) of over $5M on the prior year's tax return; and
- An operating presence at a physical office in the U.S.

Who is considered a "beneficial owner" of a Reporting Company?

Any individual who, directly or indirectly, either:

- Exercises "substantial control" over a reporting company, or
- Owns or controls at least 25% of the ownership interests of a reporting company

An individual has substantial control of a reporting company if they direct, determine or exercise substantial influence over important decisions of the reporting company. This includes any senior officers of the reporting company, regardless of formal title or if they have no ownership interest in the reporting company.

CTA regulations provide a much more expansive definition of "substantial control" than in the traditional tax sense, so many companies may need to seek legal guidance to ultimately determine who are deemed beneficial owners within their organization.

When must companies file?

There are different filing timeframes depending on when an entity is registered/formed or if there is a change to the beneficial owner's information.

- New entities (created/registered after 12/31/23) - must file within 90 days
- Existing entities (created/registered before 1/1/24) - must file by 1/1/25
- Reporting companies that have changes to previously reported information or discover inaccuracies in previously filed reports - must file within 30 days

What information is required to be reported?

Companies must report the following information: full name of the reporting company, any trade name or doing business as (DBA) name, business address, state or Tribal jurisdiction of formation, and an IRS taxpayer identification number (TIN).

Additionally, information on the beneficial owners of the entity and for newly created entities, the company applicants of the entity is required. This information includes - name, birthdate, address, and unique identifying number and issuing jurisdiction from an acceptable identification document (e.g., a driver's license or passport) and an image of such document.

How to prepare for the CTA

With the CTA introducing a new and expansive reporting regime, now is the time to assess the new rules' implications on your organization. Some questions and comments for your company to consider now, although not meant to be all inclusive, include:

- Is your company subject to the CTA or do you qualify for any of the exemptions?
- If your company is not exempt, how should you calculate percentages of "ownership interests" to determine whether any owners meet the 25%-ownership threshold? In many companies with simple capital structures, the answer will be obvious. It may be much less obvious, however, for companies with complicated capital structures (given the expansive definition of "ownership interest"), or companies in which some ownership interests are held indirectly — for example, through upper-tier investment entities, holding companies, or trusts.
- How do you assess and determine each person who exercises "substantial control" over the company? There may well be multiple people who qualify, given the expansiveness (and vagueness) of the "substantial control" definition.
- What new processes and procedures should the company put in place to monitor future changes in its beneficial owners and reportable changes on existing beneficial owners that will require timely updated reports to FinCEN? Note that the types of information that must be provided to FinCEN (and kept current) for these beneficial owners include the owner's legal name, residential address, date of birth, and unique identifier number from a non-expired passport, driver's license, or state identification card (including an image of the unique-identifier documentation). A word of caution, this is going to be a trap for Reporting Companies, as you will need to rely on beneficial owners to timely update you on reportable changes to their information (e.g., ownership changes, moves, marriages, divorces, etc.). As a result, a

company's operative documents may need to be revised to include provisions related to the CTA such as representations, covenants, indemnifications, and consent clauses. For example, the operating agreement may require:

- A representation by each shareholder, member or partner, as applicable, that it will be in compliance with or exempt from the CTA;
- A covenant by each shareholder, member or partner, as applicable, requiring continued compliance with and disclosure under the CTA or to provide evidence of exemption from its requirements;
- An indemnification by each shareholder, member or partner, as applicable, to the company and its other shareholders, members or partners, as applicable, for its failure to comply with the CTA or for providing false information; and
- A consent by each disclosing party for the company to disclose identifying information to FinCEN, to the extent required by law.

Take immediate action now!

As the CTA is not a part of the tax code, the assessment and application of many of the requirements set forth in the regulations, including but not limited to the determination of beneficial ownership interest, may necessitate the need for legal guidance and direction. As such, since we are not attorneys, our firm is not able to provide you with any legal determination as to whether an exemption applies to the nature of your entity or whether legal relationships constitute beneficial ownership.

Risk of non-compliance

Penalties for willfully not complying with the BOI reporting requirement can result in criminal and civil penalties of $500 (adjusted for inflation) per day and up to $10,000 with up to two years of jail time.

Filing

We are available to help you with the initial BOI reporting. In order for us to do that, please click this **link** or request an engagement letter. We request that all necessary information be provided to our firm prior to November 30 in order to guarantee timely filing.

Please note that this filing requirement is new and, as such, the rules and regulations surrounding are subject to change. Our Firm will prepare and file the initial CTA report. If there are any changes or amendments to the owners or business, it is your responsibility to update your record online or provide us with updated information to make the adjustment online.

Our fee for preparing the initial BOI filing will be $500 and could increase, depending on the complexity of the entity and its beneficial owners.

If you prefer to file this BOI reporting for your entities, please go to https://www.fincen.gov/boi .

Sincerely,

Anglin Reichmann Armstrong P.C.

CERTIFIED PUBLIC ACCOUNTANTS