



Corporate Transparency Act: What Design Firms Need to Know
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The Corporate Transparency Act (“CTA”), effective January 1, 2024, will impact millions of small businesses in the United States. Enacted to deter and enable enforcement against illicit activity, the CTA requires newly formed and previously created companies to file a Beneficial Ownership Information (“BOI”) Report with the Financial Crimes Enforcement Network (FinCEN). Design firms need to be aware of new disclosure requirements and, in the event reporting is required, implement a compliance and reporting policy and procedure.

Is your design firm required to file a BOI Report under the CTA?

The CTA broadly defines a “reporting company” as any U.S. entity that was or is formed by filing a document with a Secretary of State or similar office, including limited liability companies, corporations, limited liability limited partnerships, business trusts, and limited partnerships, but generally excluding sole proprietorships and general partnerships.

The CTA includes 23 specific exemptions from the definition of a “reporting company” subject to its reporting requirements, which generally apply to larger, highly regulated types of entities. Larger design firms having (i) more than 20 full-time employees, (ii) an operating presence at a physical office in the U.S., and (iii) filed a federal tax return for the previous taxable year showing more than \$5 million of gross receipts or sales **may** be exempt from the CTA’s reporting requirements.

If your design firm has a parent company and/or subsidiaries or affiliated entities, the reporting requirements and exemptions apply to each entity individually, meaning while one entity may be exempt, another may be subject to mandatory reporting requirements. All design firms should reference the applicable FinCEN checklists and speak to their tax advisor and/or attorney to confirm which entity must file a BOI Report with FinCEN.

What information must you report?

Generally, a reporting company must submit information to FinCEN about each “Beneficial Owner” and, for companies formed after January 1, 2024, the company applicant. A “Beneficial Owner” is an individual who, directly or indirectly, (i) owns or controls at least 25% of the ownership interest in the company, or (ii) exercises substantial control over the company. An individual exercises substantial control over a Reporting Company if such individual:



1. serves as a senior officer (i.e., any individual holding the position or exercising the authority of a President, Chief Financial Officer, General Counsel, Chief Executive Officer, Chief Operating Officer or any other officer, regardless of official title, who performs a similar function);
2. has authority over the appointment or removal of any senior officer or a majority of the board of directors (or similar body);
3. directs, determines, or has substantial influence over important decisions made by the reporting company; or
4. has any other form of substantial control over such Reporting Company.¹

As most design firms with 20 or fewer full-time employees have at least one owner who qualifies as a “Beneficial Owner” under the CTA, this reporting requirement is likely to impact many design firms across the country.

Filing Deadlines under the CTA

For reporting companies in existence before January 1, 2024, initial reports are due on or before January 1, 2025. For reporting companies created after January 1, 2024, initial reports are due within 90 calendar days of entity formation. Beginning January 1, 2025, all reporting companies will have 30 calendar days to file reports.

In addition to the initial BOI Report, reporting companies must timely report changes and updates to previously submitted reports. In the event of any change with respect to beneficial ownership, reporting companies must file an updated report within 30 calendar days of the date on which the change occurs. Similarly, if your entity was initially exempt but no longer meets exemption thresholds, a BOI Report must be filed within 30 calendar days after the date the entity no longer qualifies for the exemption.

To assist small businesses as it relates to compliance, FinCen has released a “Small Entity Compliance Guide” (<https://www.fincen.gov/boi/small-entity-compliance-guide>) and published a list of FAQs (<https://www.fincen.gov/boi-faqs>).

¹ 31 CFR 1010.380(d)(1)(i).



Conclusion

The CTA applies civil and criminal penalties for any entity willfully failing to file or update BOI Reports. To ensure compliance with new federal reporting requirements, all design firms should devote attention to compliance efforts and recordkeeping functions regarding beneficial ownership.

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