



# Beneficial Ownership Information (BOI) Reporting Requirements Begins January 1, 2024

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## The Crucx

The Corporate Transparency Act (CTA) created new reporting requirements for companies created or registered to do business in the United States. Effective January 1, 2024, reporting companies will be required to provide information regarding the company and its beneficial owners to the Financial Crimes Enforcement Network

(FinCEN). Failure to comply with the new requirements will result in fines and potentially criminal charges."

This information will be accessible by regulators and law enforcement and will be used to deter money laundering, tax evasion, and other illicit activities by "shell companies".

## Who Is a Reporting Company?

A reporting company is broadly defined as any corporation, limited liability company, or similar entity that is created or registered to do business in the United States by filing documents with a secretary of state or a similar office of a U.S. state or tribal government. Twenty-three types of entities are exempt from the reporting requirements. It includes foreign reporting companies registered to do business.

## Who is Exempted?

Exemptions exist for certain types of entities, including publicly traded companies, financial institutions, and government agencies.

One of the notable exemptions is large operating companies, which are defined as entities

- with over 20 full-time employees in the U.S.,
- gross receipts/sales of over \$5 million in the previous year (excluding sales from outside the U.S.) and
- a physical office presence within the U.S.

## Who is a beneficial owner?

A beneficial owner is an individual who exercises “substantial control” over the reporting company, either directly or indirectly, or who owns or controls 25% or more of the reporting company’s ownership interests. FinCEN guidance defines ownership interests to include equity, stock, or voting rights; capital or profit interests; convertible instruments; options or privileges;

Substantial Control is deemed to be exercised by a senior officer, an individual with the authority to appoint or remove senior officers, an important decision-maker, or any person exercising substantial control.

## Filing the Report

Reporting companies will be able to file reports beginning January 1, 2024. Reporting companies in existence prior to January 1, 2024, must file their reports by January 1, 2025. Reporting companies created on or after January 1, 2024, will be required to file a report within 30 days of the earlier of the date of creation or registration with their governing jurisdiction. If there is a change to the reported information, reporting companies must submit updated reports reflecting such change within one year.

There are two types of company applicants: a direct filer and an "individual who directs or controls the filing action."

FinCEN will begin accepting filings under the Corporate Transparency Act on January 1, 2024, when its Beneficial Ownership Secure System (BOSS) becomes available. FinCEN has advised that further instructions and guidance on how to complete and file the BOI report form will be released in the future. The form to report beneficial ownership information is not yet available.



## What Information needs to be reported?

Reporting companies must provide the following information about the company:

- The full legal name of the company;
- Any other trade names used by the company;
- The street address of the company's principal place of business (a P.O. box number or third-party address will not be accepted);
- A foreign company that does not have a principal place of business must report the address the company uses to conduct its business in the United States
- The jurisdiction in which the company was formed or registered; and
- An IRS-issued Taxpayer Identification Number (TIN).
- Foreign reporting companies without a TIN must report a tax identification number issued by a foreign jurisdiction and identify the issuing jurisdiction.

Reporting companies may have to report multiple individuals under the "substantial control" prong. The reporting company must provide the following-

- full legal name,
- date of birth,
- complete current address,
- unique identifying number,
- acceptable documentary source of the number (e.g., passport) and
- copy of the document.

# What are Penalties for non-compliance?

Willfully providing false information or failing to report or update beneficial ownership information may result in significant penalties. The civil penalty for a violation is \$500 per day, while criminal penalties include fines of up to \$10,000, imprisonment for up to two years, or both.

## FinCEN Identifier

Reporting companies, beneficial owners, and company applicants will have the option to obtain a unique identifier from FinCEN. Individuals who apply for a FinCEN identifier must provide the same information that would be submitted for beneficial owners and company applicants.

## Summary

The beneficial ownership reporting rules, set to take effect in 2024, represent a significant regulatory change with implications for various business entities. As per our experts at KNAV, understanding the exemptions, deadlines, and definitions of beneficial owners is crucial for compliance and avoiding penalties under this new requirement.



# Author

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## Kavit Sanghvi

Associate Partner . US Tax



[kavit.sanghvi@knavcpa.com](mailto:kavit.sanghvi@knavcpa.com)



### US Offices:

One Lakeside Commons, Suite 850, 990  
Hammond Drive NE, Atlanta, GA 30328



### Other offices:

India | Singapore | Canada | UK | Netherlands



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