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CT

ESSENTIAL COMPLIANCE INSIGHTS

ANNUAL REPORT COMPLIANCE: HOW TO GET IT RIGHT

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ANNUAL REPORT COMPLIANCE: MANDATORY & COMPLEX

Once a business entity such as a corporation, limited liability company or limited partnership is organized, it must, in most cases, file an annual report with its state of organization and with each other state in which it is qualified to do business. (In some states, a biennial report is filed.) States use the annual report process to collect information about companies – such as the identity of their officers and directors and the name of their registered agent and address of registered office, to determine if the company is still active in their state, to make this information available to the public, and sometimes to calculate and collect franchise taxes.

A company operating in all 51 jurisdictions must comply with each state's unique annual report requirements, which means meeting 51 different filing deadlines with 51 separate forms. Companies with complex structures – such as a corporation that may have many subsidiary corporations or LLCs - may be managing the filings of hundreds, even thousands of reports annually. Companies have a lot at stake, as failure to file state annual reports is the most common reason for the loss of good standing status.

EVALUATE YOUR COMPLIANCE PROCESSES

While many of the annual report forms themselves appear simple, companies with multiple subsidiary entities in multiple states manage a vastly more time-consuming and costly filing program. That's because efficient annual report compliance is a constantly repeating workflow in which the actual filings are only one step. Getting it right requires expertise in three distinct areas. A failure in any one can result in delinquent entities:

1. Monitor entities. In order to ascertain filing due dates and other compliance requirements, you must know and track your entity information as it's listed on the state record in each jurisdiction in which you do business. You need to know, for example, if there have been any name changes, changes in registered agents, new formations or qualifications, mergers, withdrawals, or dissolutions involving the entities for which you must file annual reports. Checking every month also helps flag any entities that may be delinquent, so you can take quick remedial action.
2. Know state requirements. States frequently change their requirements, and there is no uniformity among states. Each state form is different, the information requested varies, and the fees or franchise taxes are different. Filing deadlines also vary; some are on a fixed calendar due date, some are pegged to the company's formation/ qualification date. You

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should also know which states grant exemptions or extensions and the penalties or fines for late or missed filings.

3. File reports. When executing the actual annual report filing, double and triple check that the correct form is being used, that accurate entity information is filled in, that the right fee is being paid, and that an accepted method of delivery is being used, for each and every filing. States reject incomplete and incorrect filings, putting the company at risk for losing its good standing status.

REVIEW BEST PRACTICES TO FIX YOUR WEAKEST LINK

Centralize annual report workflow responsibility. This is the number one best practice. Centralize compliance responsibility in one department, say, tax, finance, or corporate governance, and avoid dispersing it across multiple departments.

Formalize entity status change notifications. Management and the legal department are often the ones who drive corporate actions that impact entity status, such as mergers, acquisitions, and other voluntary changes. These entity status changes must be communicated to the parties handling compliance.

Set up alerts for delinquent entities. Responsible parties must be notified immediately when entities fall out of good standing so that they can quickly remedy the problem before penalties and fines compound.

Take advantage of technology. Superior web-based technology designed specifically for corporate compliance is widely available. At a minimum, set up a centralized master compliance calendar that all stakeholders can access and collaborate on.

Institute an entity records system. A secure online entity management system functions as the authoritative internal record of corporate structure, entity ownership and which jurisdictions to monitor. The system can also be used to communicate and verify voluntary status changes to ensure that they were recorded correctly by the state.

Bring in expert help. This can be a worthwhile investment for companies of any size. You may partner with a full-service commercial registered agent for help with just portions of, or all of, your annual reports filing processes. As a highly specialized compliance expert, the registered agent is uniquely positioned to help you create personalized best practices that keep you fully compliant and in full control.

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CONCLUSION

Annual report compliance is required to maintain good standing status. And maintaining good standing status is an important part of keeping business objectives on track. While this requires a proactive stance, it's clearly an administrative burden. Consider the true costs of handling annual reports internally. These can include: labor, risk management, distraction from your core business, and the costs of penalties and restoring delinquent entities when mistakes are made. Once you've factored in these costs, assess your tipping point at which partnering with a compliance specialist becomes the more efficient option.

LEARN MORE

Managing annual report requirements requires constant attention, especially if you have multiple entities across jurisdictions. Learn more about how to efficiently keep all your entities in good standing. Contact a CT representative at 844-682-1582 (toll-free U.S.)

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