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LLC Owner Transparency

SB 1201 (Durazo)

Summary

SB 1201 (Durazo) will establish transparency in the ownership of limited liability companies (LLCs) and similar corporations by requiring each entity to disclose the name of each person with substantial control over the entity both upon creation and upon submitting their required biennial business filings.

Background

Existing law allows for the creation of LLCs and similar entities to provide legal protection for assets not owned by the LLC. This structure can, for example, protect an owner's family home from liquidation during a business bankruptcy. However, owners can abuse LLCs to shield not only their assets, but also their identities.

Compounding the issue, many LLCs are owned in the name of another LLC, creating additional layers of anonymity. None of this is necessary to achieve the legal and financial protection afforded by forming an LLC.

Problem

The ability to abuse the LLC structure to maintain anonymity presents numerous issues and enables a host of unscrupulous and, in some cases, illegal practices.

For instance, layers of anonymous LLCs are widespread among employers that skirt laws meant to protect workers. Owners can use LLCs to circumvent local cost thresholds beyond which a project must use a project labor agreement (PLA) in order to avoid paying their workers higher wages. Employers can also use LLCs to avoid responsibility for underpaying workers, violating meal and rest break rules, and ignoring occupational health and safety regulations. By the time a business is found responsible for violations, the owners have dissolved the LLC and created a new one, leaving nobody to pay back wages or address safety issues. It can take years for justice departments and labor representatives to connect the dots to show that a single person is responsible for repeated violations, allowing abuses to continue largely unimpeded. This makes compliance extremely difficult, allowing for more unenforceable wage theft.

The lack of owner transparency also provides an avenue to skirt responsibility for substandard housing. Property owners hide behind LLCs to avoid accountability, leaving tenants living in unsafe conditions. When local enforcement agencies close in, they simply switch LLCs, creating substantial delays in the ability of regulators to compel repairs.

In addition, the use of anonymous LLCs hides the extent to which California's housing stock is increasingly concentrated in the hands of large corporations. These sophisticated entities use numerous LLCs to create the impression that they are small mom and pop investors when in fact they own hundreds, if not thousands of units. They aggressively outbid families and true small landlords, crowding out first-time homebuyers and limiting wealth-building opportunities in many California communities.

Without owner transparency, policymakers, enforcement agencies, and the public lack critical information. The lack of public transparency allows continued patterns of abuse among those who deliberately shield their activities from public scrutiny behind a wall of LLCs, frustrates attempts to ensure accountability, and makes it challenging to make informed policy decisions.

Solution

LLCs and similar corporate entities already must register with the Secretary of State upon creation and provide certain information, which is publicly accessible. SB 1201 would require that the publicly available information and required biennial filings include the beneficial owner or owners of the company in order to bring more transparency.

Support

Rise Economy (Co-Sponsor)
Public Advocates (Co-Sponsor)

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