

# THE SUN



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## COMMENTARY

### Maryland should crack down on LLC abuses, anonymity

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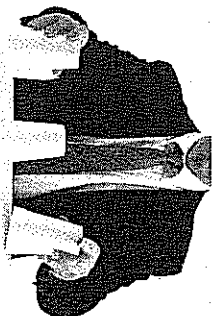
Maryland has more than 300,000 limited liability companies but is among the states with the fewest requirements for formation of LLCs. There is no requirement, for example, that the owners (called members) be identified in any regulatory filing with the state. As recent articles in "The Sun" have shown, the ability to "hide" behind the cloak of a limited liability company enables campaign contributors to make multiple contributions to political candidates, without disclosing that such companies are all owned by the same person or persons.

Similarly, in real estate transactions, real estate investors frequently buy and sell property not by transferring it, but by transferring "membership interest" in LLCs that own real property. In this way, many transfers escape payment of recordation and transfer

taxes, and the owner of the limited liability company is never known to the public or applicable regulators. (Transactions of more than \$1 million were addressed by the General Assembly last fall and are now subject to those taxes.)

Another related abuse by those who form LLCs is the deliberate, persistent use of artificial post office box addresses, purporting to be principal office and resident agent addresses for these entities. Often these bogus addresses are mailbox rental facilities with box numbers masquerading as office suite numbers. The Maryland agency that regulates the formation of LLCs, the State Department of Assessments and Taxation, has indicated that it is unable to identify these fake addresses. My organization, the Community Law Center, is endeavoring to assist the department in this effort.

In order to form an LLC in Maryland, an individual needs only to provide the



(DREAMSTIME)

name, the purpose, a principal office address, and the name and address of the registered agent. The applicant does not need to provide any information about the members or managers of the LLC.

Not all states are willing to let LLC owners off the hook so easily. Arizona requires the names and addresses of all of the members who own 20 percent or more of the LLC. West Virginia wants

the names, addresses and Social Security numbers for all of the members when the LLC is formed. Maryland has no such requirements, which has serious consequences for those who do business with Maryland LLCs. Without the identity of members or a legitimate "brick and mortar" address, the ability to examine books and records or commence a legal action against an LLC is severely hampered.

Turning back to real estate transactions: In recent years, Baltimore has seen hundreds of real estate transactions where an LLC is set up and a house is sold — "flipped" — within months (sometimes days or hours) after the house is purchased; frequently the second sale is for at least 50 percent more than the first purchase price.

These transactions continue despite the current downward trend in the real estate market. Further, such transactions often occur in economically disadvantaged parts of the city, and their

consequences include foreclosures and boarded-up homes that are a blight on the economically distressed neighborhoods where they are located.

LLC members prefer the regulations as they are because they can hide their assets, and many believe they are entitled to shield themselves from what they regard as Maryland's pro-consumer and pro-tenant laws. If Baltimore and Maryland want to prevent fraud, collect the rightfully owed transfer and recordation taxes, and even reduce the oppressive real property tax in the city, regulators and elected officials would do well to place greater requirements on the formation and registration of LLCs and improve enforcement of the existing rule against phony post office box addresses.

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