

Connecticut Entity Transactions Act

The Connecticut Entity Transactions Act (“CETA”) became effective January 1, 2014. CETA gives Connecticut businesses the flexibility to engage in additional business transactions which were not previously permitted under Connecticut law.

CETA permits four kinds of business transactions:

1. **Mergers** among different types of entities such as corporations, general partnerships, limited partnerships and limited liability companies.
2. **Interest exchanges** between different types of entities such as corporations, general partnerships, limited partnerships and limited liability companies. An interest exchange occurs when owners of a business transfer their ownership interests in one entity for ownership interests in another entity. For example, all of the partners in a limited partnership transfer their partnership interests to a corporation in return for shares of stock of the corporation.
3. **Conversion** from one entity type to another type of entity. For example, a limited liability company may convert to a corporation.
4. **Domestication** permits an entity governed by the laws of a state to become governed by the laws of a different state. For example, a Delaware limited liability company could domesticate and become a Connecticut limited liability company.

It is important to note that even though a transaction is permissible under CETA, the CETA transaction may be a taxable transaction. Conversions, interest exchanges and mergers of different types of entities under CETA are generally taxable transactions. It is important to understand the income tax consequences of a potential CETA transaction with your tax advisor before completing any contemplated CETA transaction.

A CETA transaction must include a plan of merger, plan of interest exchange, plan of conversion, or a plan of domestication. The plan must generally contain:

- The name, jurisdiction of organization of the merging entity which is not the surviving entity, the acquired entity, the converting entity, or the domesticating entity, as applicable.

If you have any questions about the issues addressed here, or any other matters involving Health Care issues, please feel free to contact:

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- The name, jurisdiction of organization and type of the surviving entity, acquiring entity, or domesticated entity, as applicable.
- The manner of converting interests in each merging entity, the acquired entity, the converting entity, or the domesticating entity, as applicable, into interests in the surviving entity, the acquired entity, the converted entity, or domesticated entity, as applicable.
- Any proposed amendments to the public or private documents of the surviving entity in a merger or the acquired entity in an interest exchange or the public or private documents of the converted entity or the domesticated entity.
- Any other provisions required by law.

Each CETA plan must be approved by each entity as follows:

- In accordance with the laws of the jurisdiction of the entity and the public and private documents of the entity;
- If neither the laws of the jurisdiction of the entity nor the public and private documents of the entity provide for approval of an interest exchange, a conversion, or a domestication, then the CETA plan must be approved in accordance with the requirements, if any, of its governing laws or public or private documents for a merger; or
- If neither the laws of the jurisdiction of the entity nor the public and private documents of the entity provide for approval of an interest exchange, a conversion, domestication, or a merger, then the CETA plan must be approved by all equity owners of the entity entitled to vote on any matter.

A certificate of merger, certificate of interest exchange, certificate of conversion or statement of domestication must be filed with the Connecticut Secretary of State for each CETA transaction, as applicable.

If one of the entities in a CETA transaction is governed by the laws of another state, then the laws of that state must permit that specific form of transaction to occur. The law does not have to be the same as CETA, but it must make the transaction legal for the out of state entity.

Statutes similar to CETA have been enacted by the District of Columbia, Alaska, Idaho, and Kansas, and introduced in Arizona. Delaware law allows mergers between different types of Delaware entities.

Businesses entering into new documents should consider whether the new documents should include references to conversions, domestications and interest exchanges, particularly if the new documents include a reference to mergers.

CETA provides Connecticut entities with an efficient way to engage in new forms of business transactions and will create a better environment for Connecticut businesses.

If you have questions regarding CETA or would like further information about the issues discussed in this newsletter, please contact your Murtha Cullina attorney.