

The Corporate Transparency Act (CTA), enacted in 2021, was passed to enhance transparency in entity structures and ownership to combat money laundering, tax fraud, and other illicit activities.

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The Corporate Transparency Act (CTA), enacted in 2021, was passed to enhance transparency in entity structures and ownership to combat money laundering, **tax fraud**, and other illicit activities. It is designed to capture more information about the ownership of specific entities operating in or accessing the U.S. market.

The law was largely ignored by accounting professionals at first. However, the effective date of the Corporate Transparency Act is fast approaching on January 1, 2024, and people are

starting to panic.

Companies are looking for more information on the Corporate Transparency Act, how it affects their operations, and what the details of the reporting requirements are. This presents a unique opportunity for accounting firms and tax accounting professionals to enhance their revenue streams by diversifying their service offerings.

Who does the Corporate Transparency Act affect?

According to a recent **Small Business Administration report**, **27,104,006 small businesses were termed “nonemployer firms” and had no employees**. The Corporate Transparency Act is designed to improve business activity transparency through the reporting of Beneficial Ownership Information (BOI) and is particularly targeted to these smaller businesses.

Who needs to file?

Reporting companies are identified as either domestic or foreign:

- Domestic reporting companies are **corporations, LLPs, or any other entity** created by the filing of a document with a secretary of state or any similar office under the law of a state or Indian tribe.
- Foreign reporting companies are a corporation, LLCs, or other entity formed under the law of a foreign country that is registered to do business in any state or tribal jurisdiction by the filing of a document with a secretary of state or any similar office. Sole-proprietorships that don't use a **single-member LLC** are not considered a reporting company.

Reporting companies typically include:

- Limited liability partnerships
- Limited liability limited partnerships
- Business trusts
- Most limited partnerships, where entities are generally created by a filing with a secretary of state or similar office.

Exemptions include securities issuers, domestic governmental authorities, banks, and many more that don't fall into the above categories.

Beneficial owners

A **beneficial owner** can fall into one of two categories defined as any individual who, directly or indirectly, either:

1. Exercises substantial control over a reporting company, or
2. Owns or controls at least 25% of the ownership interests of a reporting company.

Having two categories is designed to close any loopholes and ensure all owners are identified. The key difference is that beneficial ownership is categorized as those with ownership interests reflected through capital and profit interests in the company.

The beneficial owners **must report to FinCEN** their name, date of birth, address, and unique identifier number from a recognized issuing jurisdiction and a photo of that document. If an individual decides to file their information to FinCEN directly, they may be issued a "FinCEN identifier" which can be provided on a BOI report instead of the required information.

Company applicants

Company applicants can only be:

- The individual who directly files the document that creates the entity, or the document that first registers the entity to do business in the United States.
- The individual is primarily responsible for directing or controlling the filing of the relevant document by another.

This responsibility may fall under the scope of advisory services for an accounting professional. However, the report does not require information on the company applicant. This is an important consideration when defining the scope of engagement for advisory services with a client.

What to know about the Corporate Transparency Act

- The Corporate Transparency Act is set to go into effect at the beginning of 2024. Businesses will have plenty of questions for their accounting firms, and tax and accounting professionals must be ready with accurate answers.



When do reports need to be filed for the Corporate Transparency Act?

The Corporate Transparency Act comes into effect on January 1, 2024. Reporting companies that are in existence on the effective date must file their initial reports within one year.

Reporting companies created after the effective date have 30 days after receiving notice of their creation or registration. However, FinCEN has proposed to extend the initial filing deadline for BOI reports from 30 to 90 days for entities created or registered in 2024.

Reports must be updated within 30 days of a change to the beneficial ownership, e.g., through the sale of a business, merger, acquisition, or death, or 30 days upon becoming aware of or having reason to know of inaccurate information previously filed.

The Corporate Transparency Act's impact on tax and accounting professionals

Because the Corporate Transparency Act is related to anti-laundering initiatives and financial accountability, many companies will instinctively turn to their accounting professionals for assistance. This offers an opportunity for accounting professionals to **expand the scope of advisory services offered**.

Ensuring company records are current with the accounting firm and in the FinCEN database will require an increase in due diligence and **risk assessment activities**. With high penalties and the potential for imprisonment, this is an area that should be closely monitored. Non-compliance can result in high penalties and possible imprisonment. The escalating fines

range from \$500 to \$10,000 per violation and jail time of up to two years.

Staying compliant will also require frequent monitoring for changes and updates to the Corporate Transparency Act. Keeping on top of updates like these and other local, state, and federal changes is made easy through accounting and tax research tools such as **Thomson Reuters Checkpoint Edge®**.

Implementation and compliance challenges

To prepare for the implementation of the Corporate Transparency Act, accounting professionals will want to evaluate several areas of their practice. They should:

1. Take a proactive approach now so they can respond to client inquiries quickly.
2. Reach out to clients to ask them if they are prepared for January 1, 2024.
3. **Define their advisory service scope of engagement.**
4. Prepare a checklist.
5. Implement an organizing system.

Taking a proactive approach to reaching out and introducing clients and potential clients to the Corporate Transparency Act, and other advisory services is a great way to build and strengthen client relationships.

Embracing the Corporate Transparency Act

Accounting services cover a range of areas that carry risk, such as **financial reporting, tax compliance, mergers and acquisitions**, and internal controls. Now they can add compliance with Beneficial Ownership Information reporting.

Investing in quality research tools like Checkpoint Edge will help prepare for the transition and reinforce professional advisory services with the most current information at your fingertips.

Since most of the businesses being targeted in the U.S. by the Corporate Transparency Act are small businesses, many of which are considered non-employer firms, there is an opportunity to provide even more value by offering advisory services and the administration

of reporting and compliance monitoring. Take the administrative burden from small businesses and incorporate it into an advisory package.

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