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## The Corporate Transparency Act: How Will It Affect You?



Transparency and accountability are increasingly important in both private and governmental settings. With news outlets demonstrating that organizations frequently withhold information, everyday consumers are more aware than ever of alternative legal individuals and arrangements used to hide beneficial owners of assets.

To combat this, the U.S. government introduced the [Corporate Transparency Act \(CTA\)](#), aiming to tackle issues such as money laundering. With the CTA set to go into effect on January 1, 2024, how will corporations be affected, and what will the impact be on Certified Public Accountants (CPAs)?

This ebook will cover why and how the CTA will be implemented, how it will work, and information for CPAs looking to advise their clients in 2024.





## What is the Corporate Transparency Act?

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The Corporate Transparency Act attempts to curtail different forms of illegal financing, such as money laundering. The federal law requires business entities to identify individuals that own 25% or more of that entity or have significant control over it. Entities must declare that information with the [Financial Crimes Enforcement Network](#) (FinCEN).

By building a database of these individuals, known as beneficial owners, the Corporate Transparency Act will be able to identify better the entities that are being used for money laundering or other criminal activities. Acting as part of the [Anti-Money Laundering Act of 2020](#) (AML Act), the CTA seeks to create that transparency the U.S. has been missing.



## Why is the Corporate Transparency Act such a focus?

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The [Organization for Economic Cooperation and Development](#) (OECD) set up a task force that grades countries on how adequate their disclosure of beneficial ownership information is. It's a collaborative organization that brings together different democratic governments, and the United States has [not scored well](#) with the OECD's task force in the past. It is critical to score well because lower-scoring countries with little transparency around beneficial owners typically experience more financial criminal activities like money laundering.

With the CTA and the additional transparency around beneficial ownership, law enforcement, national security agencies, and other organizations will have access to better information that helps them protect the United States' money and property from beneficial owners who are corrupt or dangerous individuals.





## What does being a beneficial owner mean exactly?

Beyond controlling at least 25% of a reporting company's ownership interests, a beneficial owner also has substantial control over an entity.

That could mean a few things, such as the individual:

- Is a senior member of the company.
- Has authority over who is hired or removed from the entity.
- Has a majority on the board.
- Can influence or otherwise affect significant decisions in the entity.

This control can be exercised directly or indirectly, and it essentially means that any senior member or other individuals who have significant control over a company are classified as beneficial owners under the CTA. Having equity interest in the entity is not a requirement.

With how broad this definition is, entities may wish to seek additional guidance from the CTA's regulations themselves or contact legal counsel.



## When will the Corporate Transparency Act go into effect?

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Entities will need to adhere to the CTA beginning January 1, 2024. This will entail a host of new reporting and other record-keeping requirements.

These requirements will go into effect in two phases:

- **Phase One:** Entities formed after January 1, 2024 must report the required information within 30 days of their formation or registration.
- **Phase Two:** Entities formed before January 1, 2024 will have until January 1, 2025 to report the required information.

This gives existing entities more time to overhaul current ways of working. However, failure to do so will lead to penalties that can add up quickly, so it is in the entity's best interest to make changes promptly. These penalties can include the following:

- \$500 per day if a violation is not addressed
- Criminal fines of up to \$10,000
- Imprisonment of up to two years

However, if an entity files an inaccurate report, they do have 90 days to correct the information and will receive no penalties if they do so.



## How will the Corporate Transparency Act operate?

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The Financial Crimes Enforcement Network (FinCEN) is a bureau of the U.S. Treasury Department. When the CTA goes into effect, FinCEN can use the gathered information on beneficial owners to inform authorized governmental authorities and financial institutions.

The entities that will have to comply with the CTA include:

- Those created through a filing with a Secretary of State (SOS) or some other equivalent official, such as corporations and limited liability companies (LLCs).
- Companies not from the U.S. but registered to do business in the U.S. through a SOS or equivalent.

Entities should know that the definition of a domestic entity in the CTA is extremely broad, so they should check to ensure that other entity types are not required to report after January 1, 2024.





## Are there exemptions to the Corporate Transparency Act?

Many entities are already required to report information the CTA seeks to collect; others can even be tax-exempt. If federal or state governments already regulate an entity, it will likely be exempt from the CTA.

As the CTA is primarily targeting small and medium-sized businesses, large operating companies are also exempt if they have the following requirements:

- Employ 20 full-time employees or more within the United States
- Have a gross revenue or sales of more than \$5 million on last year's tax return
- Have a physical office that they operate from within the United States

The CTA is also exempt for any public accounting firm registered with the [Public Company Accounting Oversight Board](#). If a firm is not part of the PCAOB, it may still need to comply with the CTA.





## What is the impact on Certified Public Accountants?

The Corporate Transparency Act will affect CPAs in two ways:

1. Many CPAs and firms will have new reporting requirements.
2. Many of a CPA's small and medium-sized business clients will have questions about the CTA.

CPAs should be aware of specific challenges in helping their clients. [Debates are ongoing](#) over whether a CPA is best suited to give their clients this advice, depending on a state's definition of unauthorized practice of law (UPL).

To best prepare themselves, CPAs should:

- Educate themselves on the CTA and beneficial ownership reporting requirements, as well as remain current with [further guidance](#) from FinCEN.
- Exercise caution to prevent accusations of practicing law without a license. When unsure, refer services to other professionals.
- Document every aspect of informing or advising clients. Put all communications down in writing. Modify existing letters or communications to clarify that the CPA's involvement complies with the CTA.
- Take steps to prepare their own firm to comply with the CTA.

As the CTA goes into effect at the start of 2024, responsibilities and permissions for CPAs will become more apparent. However, in this transitional period, taking all the precautionary steps possible will help CPAs and their affected clients as they adjust to the new reporting requirements.



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### Contact us:

McGowanPRO  
150 Speen St., Suite 102, Framingham, MA 01701  
Phone: +1 866 262 7542 | Fax: +1 508 656 1399

Rob Ferrini | Program Manager | McGowanPRO  
Phone: 508 656 1327 | Fax: 508 656 1399 | Mobile: 508 330 0454  
[RFerrini@mcgowanprofessional.com](mailto:RFerrini@mcgowanprofessional.com)

<https://mcgowanprofessional.com/>

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