
Update On The Corporate Transparency Act

Congress recently passed the Corporate Transparency Act (the “CTA”), which will require U.S. [businesses](#) and persons forming and registering entities to file “beneficial ownership” information with the Financial Crimes Enforcement Network (“FinCen”). The CTA represents a significant effort by the U.S. to halt the practice of using shell entities to obscure the ultimate beneficial ownership of entities and to strengthen efforts to eliminate money laundering.

Who is required to file: The filing requirements apply to any existing U.S. entity or any individual that applies to form a U.S. entity or any individual that applies for a foreign entity to do business in the U.S.

Exceptions: (a) minor children, whose parents or guardians file information; (b) an intermediary, custodian, or agent on behalf of another individual; (c) certain employees, (d) individuals whose interest is the right of inheritance; and (d) certain creditors.

Exempt entities: (a) companies with more than 20 employees that have revenues of more than \$5 million as shown on U.S. tax returns and have a physical presence in the U.S., and (b) most financial institutions, investment, and accounting firms, and security trading firms.

Definition of “beneficial owner”: A beneficial owner is an individual who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise, has substantial control over an entity or who owns or controls at least 25% of the ownership interest in an entity. Each entity must file a report that states the name, date of birth, current address, and a unique identification number (from a passport or driver’s license).

Timing of filings: The U.S. Treasury must adopt rules by no later than December 31, 2021, after which filings will be required. Existing entities will have 2 years to submit initial reports. Individuals forming or registering a new company will be required to submit reports at the time of formation or registration. Entities are also required to file reports annually that detail the entity’s beneficial owners and changes in beneficial owners.

Access to information: Filing information will not be publicly available and may only be accessed by law enforcement (including foreign law enforcement entities requesting information) and financial institutions conducting due diligence under the USA Patriot Act or under the Banking Security Act.

Penalties for failure to comply: Failure to make the required filings can result in civil penalties of \$500 per day for every day of the filing, criminal fines up to \$10,000, and imprisonment of up to 2 years.

We will be monitoring the publication by the Treasury Department of rules implementing the CTA. This alert is for informational purposes only and does not constitute legal advice. Please contact us for more information.

Four Seasons Office Tower
1441 Brickell Avenue, Suite 1400
Miami, Florida 33131

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