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Client Alert: Corporate Transparency Act Nationwide Injunction Update

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On December 3, 2024, Judge Amos L. Mazzant of the U.S. District Court for the Eastern District of Texas Sherman Division issued a preliminary injunction on the Corporate Transparency Act (the CTA) in favor of the plaintiffs in the case *Texas Top Cop Shop, Inc. et. al. vs. Garland*. The CTA, which went into effect January 1, 2024, requires "reporting companies" in the United States to disclose information about their beneficial owners — the individuals who ultimately own or control a company — to the Treasury Department's Financial Crimes Enforcement Network (FinCEN).

In so ruling, "[t]hus, the Court determines that the Government should be enjoined from enforcing the Reporting Rule and the January 1, 2025, compliance deadline under the Reporting Rule should be stayed. . ." Thus, the CTA and its reporting requirements have been delayed nationwide until the Fifth Circuit Court of Appeal reviews this ruling.

Judge Mazzant noted that Congress should not have the broad-reaching authority to circumvent the First, Fourth, and Fifth Amendments to the U.S. Constitution to obtain sensitive information from the 32.6 million existing reporting companies. Mazzant further stated that the CTA attempts to "convert congressional authority under the Commerce Clause to a general police power of the sort retained by the state." As a result, such a holding will be considered by the Fifth District Court of Appeal, which will review this preliminary injunction, and the Eleventh Circuit Court of Appeal, which is reviewing a similar constitutional challenge to the CTA in *National Small Business United v. Yellen* (No. 24-10736), with a ruling expected shortly due to an accelerated briefing schedule.

Although the preliminary injunction affords reporting companies nationwide a reprieve from the Reporting Rule's January 1, 2025, compliance deadline, the fate of the CTA and its Reporting Rule will remain unsettled until the Eleventh Circuit Court of Appeal or Fifth Circuit Court of Appeal ultimately rules on the constitutionality of the CTA and its Reporting Rule. We note that Judge Mazzant's ruling does not explicitly address the filing deadline for reporting companies formed after January 1, 2025. Given this uncertainty, all reporting companies should continue to finalize their compliance plans to ensure that any necessary reporting information is ready should the CTA be constitutional and the Reporting Rule becomes effective. We note that a challenge before the United States Supreme Court is possible and may impact the CTA and Reporting Rule further.

We will continue to update you as these issues progress through the courts to keep you informed on the reporting requirements.

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