

December 04, 2024

FEDERAL TEXAS COURT BLOCKS CORPORATE TRANSPARENCY ACT: ENFORCEMENT OF ACT HALTED NATIONWIDE

On December 3, 2024, the U.S. District Court for the Eastern District of Texas issued a nationwide preliminary injunction in favor of the plaintiffs, preventing enforcement of the Corporate Transparency Act ("CTA"). See [Texas Top Cop Shop v. Garland](#) (Case No. 4:24-cv-00478) (E.D. Tex.). The U.S. District Court's decision prohibits the federal government from enforcing the CTA temporarily. This decision comes only one month before the filing deadline of January 1, 2025.

The Corporate Transparency Act

The Corporate Transparency Act became effective on January 1, 2024, and requires approximately 32.6 million existing "reporting companies" to submit information about their "beneficial owners". Beneficial ownership information includes sensitive personal data and, according to the Financial Crimes Enforcement Network ("FinCEN"), reporting such information will provide greater transparency in business ownership and structure to combat financial crimes. The deadline for existing reporting companies to file their report with FinCEN under the CTA is January 1, 2025. Businesses that don't comply with the CTA filing requirements by the deadline face civil and criminal penalties.

The Court's Decision and its Impact on Your Company

The plaintiffs before the Texas District Court argued that the CTA exceeds Congress's powers as the federal government's attempt to monitor companies created under state law. And while corporate regulation traditionally falls under the jurisdiction of the states, the government urged that the CTA fell well within the powers granted to it under the Constitution. The Court disagreed, stating that the balance of powers is disrupted by the federal oversight of corporate ownership and that the requirement for companies to continuously disclose information "threatens the very fabric of our system of federalism." The Court also concluded that the CTA burdens businesses by forcing significant reporting and compliance. In support of its ruling, the Court noted that the "CTA is likely unconstitutional as outside of Congress's power."

The Court therefore ruled that the CTA is preliminarily enjoined nationwide. This means that existing reporting companies do not have to comply with the CTA's January 1, 2025 reporting deadline, and FinCEN will not be able to enforce any of the CTA's penalties for any business that does not comply with the CTA. However, it is important to note that the Court's ruling on December 3 is only a

preliminary injunction – a temporary halt on the federal government’s ability to enforce the CTA based on the likelihood that the plaintiffs’ claims here will succeed – and is not a final ruling on the merits of the case.

As of this article’s publication, the federal government has not commented on the ruling. However, the federal government is likely to appeal this ruling to the United States Court of Appeals for the 5th Circuit. On appeal, there is a possibility that the appellate court will hold that the CTA may be enforced.

JAH Can Help

The experienced corporate attorneys at Johnston Allison Hord can help you navigate the complexities of the Corporate Transparency Act and advise you on how to comply with the law. Our team offers expert guidance on ensuring that your company remains compliant with federal reporting laws and protecting your corporation. [Click here to contact a member of our Corporate Practice Group](#) if you need assistance.

If you would like more information on the Corporate Transparency Act itself, you can read our previous [article on the Corporate Transparency Act](#) or watch our [video that explains the Corporate Transparency Act](#).

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