

Enforcement of the Corporate Transparency Act Suspended by Federal Court's Preliminary Injunction

Corporate News: A Legal Update

By Karen Tobin on December 5, 2024

On December 3, 2024, in the case of *Texas Top Cop Shop v. Garland*, the U.S. District Court of Texas issued a nationwide preliminary injunction of the Corporate Transparency Act (CTA), which prevents the enforcement of the CTA at this time. In an effort to combat money laundering, terrorism financing, and corruption, the CTA was enacted to require companies to file beneficial ownership reports with the United States Financial Crimes Enforcement Network (FINCEN) unless a company falls within one of the CTA's 23 exemptions.

What Does This Mean for Companies That Have Not Yet Complied With the Reporting Deadline?

The ruling of the preliminary injunction is **ONLY preliminary** and the U.S. Department of Justice is likely to quickly appeal and potentially request the court to stay the injunction. The court did not rule on whether the CTA was constitutional, only that the act should not be enforced until the court is able to decide on the issue of whether the CTA is outside of Congress' power and therefore unconstitutional. The court ruled that the plaintiffs in this case demonstrated a substantial likelihood of success on the merits of their challenge to the CTA's constitutionality and met their burden of proof. The plaintiffs had requested relief only for themselves, which included approximately 300,000 trade association members. The defendants argued that it would result in a nationwide injunction as a practical matter. The court noted this practical effect and issued the nationwide injunction.

While we understand that, in light of this new ruling, clients may elect to pause reporting to FINCEN, we recommend that clients not abandon preparations for their eventual compliance with the CTA. If the injunction is stayed or limited, clients should ensure that they are in a position to promptly complete their required filings.