

ALERT

Federal Court Halts Enforcement of Corporate Transparency Act

December 5, 2024

On December 3, 2024, the United States District Court for the Eastern District of Texas, in *Texas Top Cop Shop v Garland et al.*, issued a nationwide preliminary injunction, which temporarily blocks enforcement of the Corporate Transparency Act (CTA) and its implementing regulation. 4:24-cv-00478 (Dec. 3, 2024 E.D. Tex.). That injunction effectively suspends the requirement for reporting companies to file beneficial ownership information reports (BOIRs) with the U.S. Department of Treasury's Financial Crimes Enforcement Network (FinCEN). (For a summary of the CTA's requirements, see our previous client alerts, which can be found [here](#), [here](#), [here](#), and [here](#)). However, as the January 1, 2025 deadline for reporting companies formed prior to 2024 approaches, reporting companies should think twice before halting CTA compliance efforts.

Summary of the District Court's Ruling

As background, in May 2024, six plaintiffs filed a lawsuit claiming that the BOIR requirements under the CTA were unconstitutional. As part of that lawsuit, plaintiffs sought a preliminary injunction to enjoin the federal government from enforcing the CTA and its implementing regulations. Characterizing the CTA as a "flanking, quasi-Orwellian statute," Judge Mazzant of the Eastern District of Texas granted the injunction, finding, among other factors, that the plaintiffs are likely to succeed on the merits of their claims and that the plaintiffs are likely to suffer irreparable harm in the absence of preliminary injunctive relief. Specifically, Judge Mazzant concluded that matters involving corporate formation have traditionally fallen to the states and that Congress exceeded its powers in regulating this activity. He further held that the CTA imposes a significant burden on small businesses with FinCEN estimating that the total cost of BOI reporting will be

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\$22.7 billion in the first year and \$5.6 billion in the years that follow.

Implications of the District Court's Ruling

A preliminary injunction is only a temporary measure, and not a final decision on the merits. That said, the preliminary injunction in this case applies nationwide, meaning all reporting companies, even those organized outside of Texas, are exempt from filing BOIRs until further notice. Although FinCEN has not yet announced whether it plans to appeal the decision, an appeal could ultimately reverse the injunction and reinstate all filing requirements. Importantly, if the injunction is lifted on or before the eve of the January 1, 2025 deadline, reporting companies that choose to halt all CTA compliance efforts may find it increasingly difficult to comply with the CTA's requirements on such short notice. Further, a continuation of compliance efforts might help to avoid a short time-crunch if the CTA reporting requirements are ultimately reinstated subject to a later filing deadline. While it is possible FinCEN may grant leniency in such circumstances, the CTA carries significant penalties for willful noncompliance.

Wiley's White Collar Defense & Government Investigations and Corporate practices have unparalleled capabilities and experience in helping clients navigate increasingly complex regulatory landscapes, including corporate governance and transactional matters, and compliance with federal and state requirements. For more information about the CTA, please contact one of the authors listed on this alert.