

## Client Alert: Texas Court Blocks Corporate Transparency Act Nationwide

December 06, 2024

In a significant development for entities across the country, a Texas federal court has issued a nationwide injunction halting the enforcement of the Corporate Transparency Act (CTA), casting uncertainty on its future. As discussed in our Overview of the Corporate Transparency Act 2023 alert, in an effort to combat money laundering and illicit financial activities, Congress enacted the CTA in 2021, requiring most smaller corporations, limited liability companies, and other business entities existing as of January 1, 2024, to disclose certain ownership information, including the identities of natural persons who are beneficial owners of the entity, to the Financial Crimes Enforcement Network (FinCEN) before January 1, 2025. (Reporting companies formed after December 31, 2023, have been subject to 90-day reporting deadlines for most of 2024. Enforcement of those deadlines was also enjoined.)

On December 3, 2024, the U.S. District Court for the Eastern District of Texas ruled in favor of the National Federation of Independent Business and other plaintiffs. Describing the law as “unprecedented,” the Court held that the CTA likely exceeds Congress’s power under the Constitution. The Court’s order specifically stayed the January 1, 2025, reporting deadline.

This decision follows a similar ruling earlier this year from a U.S. District Court for the Northern District of Alabama, which similarly found that the CTA is likely unconstitutional but limited the injunction to the reporting responsibility of the plaintiffs in that case. Unlike the Alabama ruling, this decision stays enforcement of the CTA nationwide.

For the time being, this ruling relieves reporting companies of the requirement to report beneficial ownership information to FinCEN, and entities that were preparing to comply with the January 1, 2025, reporting deadline can pause these efforts. However, businesses should remain cautious, as this decision is not the final word on the matter. On December 5th, the government filed its Notice of Appeal.

The court’s order does not prohibit filing the report and some reporting companies may prefer to complete the task. As of the time of this writing, the FinCEN BOI filing portal appears to be operational, and filings can still be submitted.

We encourage companies to evaluate their unique circumstances before deciding how to proceed and consult with legal counsel to ensure alignment with their compliance strategy.

