

Texas District Court Temporarily Blocks Enforcement of CTA and Reporting Requirements

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On December 3, 2024, the United States District Court of the Eastern District of Texas held that the Corporate Transparency Act (CTA) (requiring businesses to report Beneficial Ownership Information to the U.S. Department of Treasury's Financial Crimes Enforcement Network, or FINCEN) is **likely unconstitutional**.

The Court granted a nationwide preliminary injunction to prohibit the government's enforcement of the CTA throughout the country. For the time being, the order relieves millions of businesses across the United States from the CTA's Beneficial Ownership Reporting Requirements.

The CTA, which became effective as of January 1, 2024, required reporting companies to report Beneficial Ownership Information to FINCEN through an online filing system. Subject to various exemptions, the CTA's reporting requirements were applicable to millions of businesses in the US, and obligated such reporting companies to file initial Beneficial Ownership Information reports to FINCEN either (i) ninety days from formation of the entity if formed on or after January 1, 2024 or (ii) by December 31, 2024 for those entities formed prior to January 1, 2024.

In *Texas Top Cop Shop, Inc., et al. v. Garland, et al.*, Case No. 4:24-cv-478 (E.D. Tex.), based in part on the Plaintiffs' allegation that the CTA was an unlawful extension of federal power, the Court held that Congress' legislative powers did not allow it to enact the CTA, and characterized the CTA as a dangerous precedent that threatened the constitutional rights of reporting companies.

As a result, pending appeal or additional developments from the courts, existing reporting companies are not required to comply with the CTA's upcoming January 1, 2025 deadline for filing initial beneficial ownership reports, nor are newly formed reporting companies required to file a report within ninety days of formation.

The Court's decision is a **temporary order**, and will likely be appealed by the federal government. While the Court stated that the CTA is "likely unconstitutional," as a rationale for enjoining enforcement of the CTA nationwide, the federal courts have not yet ruled on the issue of the CTA's constitutionality. Since the ruling was an Eastern District of Texas Court, there is some question and uncertainty of whether the Court in *Texas Top Cop Shop* exceeded its authority in issuing a nationwide preliminary injunction, and this is certainly not the final story for the CTA.

At this time, however, pending further updates from the Courts, reporting companies may decide to pause and hold off on any further Beneficial Ownership Information filings.

However, as there is no harm in making the filings with FINCEN and as there is some question as to the legal authority of the Court's nationwide injunction, we suggest reporting companies at least consider proceeding with and finalizing such Beneficial Ownership Information filings prior to January 1, 2025.

At the very least, the federal government is enjoined from enforcing the CTA and/or imposing any penalties or actions under the CTA. If you have any questions or would like more information on the issues discussed in this article, [please reach out to your contact at Knox Law](#), who can coordinate and assist with the provision of appropriate advice on CTA compliance.

Our firm will continue to monitor developments related to the CTA and the status of any legal challenges to the CTA.



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