

Federal Court Blocks Corporate Transparency Act Enforcement

Quick Tips and Need to Know

- The [Corporate Transparency Act](#) (“CTA”) was enacted in 2021 and became effective on January 1, 2024.
- The CTA requires that certain business entities file Beneficial Ownership Information with the Financial Crimes Enforcement Network (FinCEN) as part of an effort to better detect and prevent financial crimes. See our prior post on this topic [here](#).
- On December 3, 2024, a Texas Federal District Court enjoined the Government from enforcing the CTA finding that Plaintiffs had met their burden in showing that the CTA and Reporting Rule threaten substantial, imminent, non-speculative, and irreparable harm.
- **Next Steps:** The injunction is applicable nationwide and relieves business from complying with the CTA until a final judgment has been rendered on the claims.

Background

In 2021, Congress enacted the CTA as part of the National Defense Authorization Act to aid law enforcement in the detection and prevention of financial fraud by requiring that business entities report beneficial ownership relationships. The CTA became enforceable on January 1, 2024 and requires certain entities to report Beneficial Ownership Information (“BOI”). The CTA defines a “Beneficial Owner” with respect to an entity as “an individual who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise (i) exercises substantial control over the entity; or (ii) owns or control not less than 25 percent of the ownership interests of the entity;” See [31 U.S.C. § 5336\(a\)\(3\)\(B\)](#). For a full summary of the CTA and accompanying reporting requirements, please see [Bochner Core X Client Alert - Corporate Transparency Act January 2024](#). The deadline for compliance for businesses formed prior to January 1, 2024 is January 1, 2025. For entities formed on or after January 1, 2025, owners will have 30 calendar days to file a BOI after registration of the new business becomes effective. See [Beneficial Ownership Information | FinCEN.gov](#) at B.1.).

Notably, the CTA has received extensive pushback from business owners, many of whom have filed cases in Federal Courts to prevent the Government from enforcing the regulation. See [Bochner Letterhead Client Alert Update on Transparency Disclosure](#).

Current State of Affairs

On December 3, 2024, nearly a month before entities would be held liable for compliance with the CTA, a Federal District Court in Texas granted a preliminary injunction to enjoin the Government from enforcing the CTA and its implementing regulations. See [Texas Top Cop Shop, Inc., et al v. Garland et al, Docket No. 4:24-cv-00478 \(E.D. Tex. May 28, 2024\), Court Docket](#). In granting the Plaintiffs’ request for preliminary injunction, the Court noted that the Plaintiffs had met their burden of proof in

showing that the CTA and Reporting Rule threaten substantial, imminent, non-speculative, and irreparable harm. ***As a result, business entities who fall within the scope of the law are not obligated to comply with its standard until a final decision has been rendered as to the permissibility of the CTA.*** Importantly, in issuing its opinion, the Court focused on the increased regulatory compliance burden which the law would impose on the Plaintiffs. Further, the Court noted that Plaintiffs' claim that compliance with the CTA may infringe on the Plaintiffs' constitutional rights sufficiently supported Plaintiffs' assertion that compliance with the statute would cause irreparable harm.

Impact on YOU

The Texas Federal District Court's grant of preliminary injunction will prevent the Federal Government from enforcing the CTA until the Court issues a final judgment on the Plaintiffs' claims. Accordingly, businesses that are subject to the CTA can pause their CTA compliance efforts for the time being. Likewise, businesses that have yet to file BOI with FinCen can delay their filing efforts until a final judgment has been rendered. Importantly, the Court's grant of Plaintiffs' request for preliminary injunction does not extinguish the law's applicability or the Government's ability to enforce the CTA in the future. Indeed, if the injunction is overturned at the appellate level, businesses may still be expected to meet the January 1, 2025 filing deadline. As such, it is important that businesses not only monitor litigation dealing with the constitutionality of the CTA but also establish compliance mechanisms to mitigate against compliance risks if the statute is deemed enforceable.

For more information on how the CTA may affect your business specifically and how to prepare for compliance with the law, please reach out to Matthew Shatzkes, Matthew@bochner.law, Chase Howard, Choward@bochner.law, Brent Britton, bcjb@bochner.law, or your Bochner PLLC attorney at (646) 971-0685.