

Court Blocks Enforcement of the Corporate Transparency Act Nationwide

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On December 3, 2024, the U.S. District Court for the Eastern District of Texas granted a nationwide preliminary injunction temporarily halting enforcement of the Corporate Transparency Act (CTA). With less than a month to go before the January 1, 2025 compliance deadline for entities formed prior to 2024, this ruling blocks the U.S. Department of Treasury from enforcing the requirements of the Beneficial Ownership Information Reporting Rule (the “Rule”) issued by the Financial Crimes Enforcement Network (FinCEN).

The Court’s opinion in *Texas Top Cop Shop, Inc., et al. v. Garland, et al.* raises significant questions about the constitutionality of the CTA and its potential negative impact on small businesses. The CTA, part of broader anti-money laundering efforts, requires companies to disclose personal information about their “beneficial owners” (individuals who ultimately own or control a company) to a federal database maintained by FinCEN. In his Memorandum Opinion and Order, United States District Judge Amos L. Mazzant concluded that the CTA and Rule are likely unconstitutional as they exceed the scope of Congress’s power. The Court held that CTA does not regulate interstate commerce and that it is further not authorized by the Necessary and Proper clause of the Constitution.

The nationwide injunction affects most business entities in the U.S., as the CTA and Rule apply to approximately 32.6 million companies. Per the Court’s order, “reporting companies need not comply with the CTA’s January 1, 2025, BOI reporting deadline pending further order of the Court.”

While businesses are temporarily relieved of compliance obligations, the final resolution of the matter remains uncertain. Although no announcement has been made as of the time of this publication, the U.S. Department of Justice is likely to appeal the preliminary injunction to the U.S. Court of Appeals for the Fifth Circuit. Companies should stay informed and be prepared for potential changes to enforcement. Babst Calland will continue to closely monitor developments on this matter. Please reach out to fincenassist@babstcalland.com or your Babst Calland client relationship lawyer if you have any questions.

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