

Corporate Transparency Act Blocked by Federal Injunction

Texas Federal Court Halts Enforcement of Act Nationwide; FinCEN Appeals

St. Louis, Dec. 9, 2024 – On December 3, 2024, a preliminary injunction issued against the enforcement of the Corporate Transparency Act (CTA) temporarily stilled the implementation of its regulatory requirements nationwide.

On December 7, 2024, the Financial Crimes Enforcement Network (FinCEN) issued guidance on its website at <https://fincen.gov/boi> confirming that “reporting companies are not currently required to file their beneficial ownership information with FinCEN and will not be subject to liability if they fail to do so while the preliminary injunction remains in effect. Nevertheless, reporting companies may continue to voluntarily submit beneficial ownership information reports.”

The CTA, which was signed into law in January 2021 as part of the Anti-Money Laundering Act of 2020, is intended as a measure to combat financial crime. It mandates that U.S. corporations, LLCs, and other entities (with some exceptions) must report the personal identities of their beneficial owners to a database overseen by FinCEN, a bureau within the U.S. Department of the Treasury. Failure to comply carries a threat of serious federal penalties.

The present injunction arrived less than one month before the compliance deadline of Jan. 1, 2025, when enforcement was set to begin. Judge Amos Mazzant III of the U.S. District Court for the Eastern District of Texas granted the Plaintiffs’ motion for preliminary injunction in the case *Texas Top Cop Shop v Garland et al.* (case 4:24-cv-00478 December 3, 2024), halting enforcement of the CTA.

The Plaintiffs argued that the CTA infringes on the First Amendment by compelling speech and association, and violates the Fourth Amendment by requiring disclosure of private information. Reasoning that the CTA exceeds Congress’ authority to regulate interstate commerce and oversteps its enumerated powers, Judge Mazzant held that these were sufficient grounds to grant injunctive relief from the CTA’s regulations.

Therefore, enforcement of the CTA is currently on hold, and with it the requirement to file the Beneficial Ownership Information (BOI) report. This injunction does not mean that the CTA is definitively unconstitutional, but it disallows enforcement of the Act until a final verdict can be reached on that question.

However, FinCEN responded with little hesitation and appealed this injunction to the Fifth Circuit Court of Appeals on December 5, 2024. If the appellate court moves swiftly, and rules to narrow, stay, or lift the injunction, the CTA could return to effect

much sooner. In such a scenario, the impending Jan. 1, 2025, reporting deadline might also return, alongside the potential for harsh non-compliance penalties.

It would therefore be prudent for businesses impacted by the CTA to continue to prepare for compliance, even if they elect to await further developments before filing their BOI reports with FinCEN. Businesses who have already reported to FinCEN will remain in compliance with the CTA if and when it returns to effect.

These developments highlight the judiciary's role as a check against the power of Congress to legislate, and against Federal bureaus like FinCEN to execute that legislation. A lengthy court proceeding is likely on the horizon for the CTA, with further limitation of the Act itself potentially on the table if the incoming administration leans into a policy of deregulation.

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