Texas Court Halts Corporate Transparency Act: What This Means for Your Business

December 9, 2024

By: Deirdre Wheatley-Liss, CELA*

Summary of Key Points

- **Nationwide Injunction:** A federal court ruling has temporarily halted the enforcement of the Corporate Transparency Act (CTA).
- **Constitutional Challenges:** Plaintiffs argue the CTA exceeds Congress's authority, and the court determined that these claims are likely to succeed.
- **No Immediate Compliance Required:** While the injunction is in effect, businesses do not need to file Beneficial Ownership Information Reports (BOIR). See FinCEN guidance.

Action Items

- **For Businesses That Have Filed:** No further action is needed at this time.
- **For Businesses That Have Not Filed:** Pause compliance efforts but stay alert for updates on potential reinstatement of the filing requirement.
- **Stay Updated:** Follow developments in this case through Porzio and other reliable sources, including potential appeals or changes to the injunction.
- **Consult Legal Counsel:** Contact us at sprasla@pbnlaw.com to discuss specific concerns or questions about your business's compliance obligations.

We are committed to supporting you through this evolving legal landscape. We are closely following this case and will provide timely updates as new developments occur. Our team is here to provide tailored advice and answer any questions you have about CTA developments.

Ruling Summary

On December 3, 2024, U.S. District Court Judge Amos Mazzant, in the Eastern District of Texas, issued a nationwide preliminary injunction that blocks the enforcement of the CTA and its related regulations.

Broader Implications

This ruling delays the nationwide rollout of the CTA and raises questions about Congress's authority to impose such requirements. Businesses should remain aware of potential shifts in compliance expectations as this case progresses.

FinCEN has advised “In light of a recent federal court order, reporting companies are not currently required to file beneficial ownership information with FinCEN and are not subject to liability if they fail to do so while the order remains in force. However, reporting companies may continue to voluntarily submit beneficial ownership information reports.” https://www.fincen.gov/boi

Key Facts

- **Plaintiffs Involved:** Six plaintiffs filed the lawsuit that initiated this case, including:
  - Three private businesses impacted by the compliance requirements,
  - A CEO of a reporting entity,
  - A political organization classified as a reporting entity under the CTA, and
  - The National Federation of Independent Business (NFIB), a group representing over 300,000 small and independent businesses nationwide.
- **Court's Ruling:** Judge Mazzant held that the plaintiffs demonstrated a “substantial likelihood” of prevailing in their challenge to the CTA. Key findings include:
  - **Irreparable Harm:** The court found that enforcement of the CTA would impose significant financial and administrative burdens on businesses, particularly smaller entities.
  - **Constitutional Concerns:** The ruling questions Congress's authority to impose such reporting requirements, questioning the application of the Commerce Clause and the Necessary and Proper Clause as legal grounds for the CTA.

Historical Context of the Corporate Transparency Act (CTA)

For a detailed overview of the CTA's legislative history and implementation timeline, visit Corporate Transparency Act Becomes Operational.

What This Means for Reporting Entities

While the injunction provides temporary relief from CTA compliance requirements, businesses should prepare for possible changes depending on the final outcome of this case.

- **Immediate Impact:** Reporting entities are temporarily relieved from compliance with the CTA's reporting requirements. With the injunction in effect, businesses are not presently required to file Beneficial Owner Information Reports with FinCEN.
- **Uncertain Future:** This is a preliminary injunction, meaning it is subject to change based on further rulings, appeals, or legislative actions. If the courts ultimately find the CTA unconstitutional, there could be additional consequences, such as the destruction of reports already filed under the CTA.
- **Business Considerations:** Companies that have already invested resources to comply with the CTA should monitor the situation closely. Businesses that choose not to comply based on the injunction should prepare for potential future obligations if the ruling is overturned.

Prepared for the Road Ahead

This ruling offers temporary relief, but the situation remains fluid. Staying informed is essential as the legal process unfolds. If you have questions about how this development impacts your business or compliance strategy, Porzio's team is ready to provide tailored advice and practical guidance.