

Preliminary Injunction Pauses Nationwide Enforcement of Corporate Transparency Act

Article

Lowndes

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As of December 3, 2024, the United States District Court for the Eastern District of Texas has issued a preliminary injunction pausing the nationwide enforcement of the Corporate Transparency Act and its implementing rules (collectively, the “CTA”).

The CTA, effective as of January 1, 2024, was enacted for the purpose of curbing money laundering, terrorism financing, and other illicit activities. The law generally requires “reporting companies” (any domestic or foreign entity registered to do business in the U.S. and which does not fall into one of 23 specific exceptions) and their respective “beneficial owners” (any individual who owns at least 25% of, or exercises substantial control over, an entity) to report certain information to the Financial Crimes Enforcement Network (“FinCen”), a bureau within the United States Department of the Treasury.

While reporting deadlines vary under the CTA depending on the date of formation of the entity, the deadline for reporting entities formed prior to January 1, 2024 is January 1, 2025 (subject to certain extensions granted in connection with a number of hurricanes which recently impacted the Southeast).

In an order issued by Judge Amos L. Mazzant in the case of *Texas Top Cop Shop, Inc. v. Garland*, the Court determined that while the absolute constitutionality of the “CTA and the Reporting Rule...is a question for another day,” the Plaintiffs “demonstrated a substantial likelihood of success on the merits of...their claims” that the CTA is unconstitutional. Accordingly, the Court determined that the Federal Government “should be enjoined from enforcing the Reporting Rule and the January 1, 2024 compliance deadline under the Reporting Rule should be stayed.” Furthermore, while the scope of the injunction sought in this case was limited to the six Plaintiffs (and for one Plaintiff, all members of their trade organization), the Court determined that, given “the extent of the violation, the injunction should apply nationwide.”

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While the ruling in this case does pause enforcement of the CTA with respect to all entities under its wide umbrella, note that this preliminary injunction is only temporary in nature. On appeal, there is the potential that the injunction is overturned, or a final ruling is made in favor of the government with respect to the constitutionality of the CTA.

For further questions regarding the status of this injunction, or how this ruling may impact you or your company, please reach out to any member of the Lowndes Corporate Group for guidance.