

On December 3, 2024, the United States District Court for the Eastern District of Texas issued a nationwide preliminary injunction halting the enforcement of the Corporate Transparency Act (CTA) and its implementing regulations. The Financial Crimes Enforcement Network (FinCEN) has since issued guidance confirming that reporting companies are not currently required to file Beneficial Ownership Information (BOI) reports.

Here's what business owners need to know about the decision, its implications, and how to prepare for potential outcomes.

Constitutional Challenges to the CTA

The injunction stems from the case *Texas Top Cop Shop, Inc. et al. v. Garland et al.*, in which a group of plaintiffs, including the National Federation of Independent Business (NFIB), challenged the constitutionality of the CTA. The plaintiffs argued that Congress exceeded its authority under the Tenth Amendment, and also raised additional constitutional challenges under the First, Fourth, and Ninth Amendments. The court agreed that the plaintiffs demonstrated a substantial likelihood of success on the merits of their constitutional claims, leading to the temporary suspension of the law.

Scope of the Injunction

The court's order enjoins both the CTA and its implementing regulations, staying all compliance deadlines. FinCEN has confirmed that reporting companies will face no liability for failing to file BOI reports while the injunction is in place. However, FinCEN is still accepting voluntary submissions.

Uncertainty About Future Compliance Deadlines

While the preliminary injunction provides temporary relief, the case remains subject to appeal. If the injunction is lifted or if the plaintiffs ultimately lose their constitutional challenge, enforcement of the CTA could resume immediately. Courts have discretion to decide whether to allow a grace period for compliance, but there is no guarantee. Businesses could face a sudden requirement to comply with BOI reporting obligations.

What the CTA Requires

For background, the CTA requires most small businesses classified as “reporting companies” to disclose key beneficial ownership information to FinCEN, including:

- Legal names of beneficial owners,
- Dates of birth,
- Residential or business addresses, and
- Identifying numbers (e.g., from passports or driver’s licenses).

The CTA’s stated purpose is to combat financial crimes such as money laundering, terrorism financing, and tax evasion. Non-compliance carries significant penalties, including fines of up to \$10,000 and up to two years in prison.

Next Steps for Business Owners

- Monitor Legal Developments:
 - Litigation continues in courts across the country, with some rulings favoring the government and upholding the CTA. The government has filed an appeal in Texas Top Cop Shop, which could ultimately reach higher courts.
- Prepare for Possible Compliance:
 - While compliance is not required at this time, businesses should begin identifying beneficial owners and gathering necessary documentation in case reporting requirements are reinstated.
- Understand the Risks:
 - If the injunction is lifted, enforcement could resume without a grace period. Being prepared now could help mitigate risk and avoid penalties later.

Conclusion / Recommendations

Because of this ruling, we are not encouraging clients to file BOI reports right now. Rather, we recommend that clients be prepared in case the injunction is lifted or FinCEN prevails in another case. Should FinCEN succeed, there will likely be a window to meet a new compliance deadline. However, if FinCEN loses on appeal, the filing requirement will remain suspended, and there will be no need to file at all.

The CTA’s future remains uncertain, but taking proactive steps to prepare for compliance while monitoring ongoing litigation will help businesses adapt to whichever outcome emerges.