

**Client Alert** | December 9, 2024

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## Federal Judge Issues Nationwide Injunction on Enforcement of Corporate Transparency Act

On December 3, 2024, Judge Mazzant of the United States District Court for the Eastern District of Texas (the “Court”) issued a nationwide injunction, enjoining enforcement of the Corporate Transparency Act and the rules promulgated by FinCEN (the “Reporting Rules”). Please see our prior [Alert](#) on the Corporate Transparency Act and the Reporting Rules for more information regarding the background and requirements. The Corporate Transparency Act and the Reporting Rules would have required entities formed in the United States or qualified to do business in the United States (“Reporting Companies”) to file certain information regarding their beneficial owners with the U.S. government.

The Court issued the preliminary injunction on the grounds that the Corporate Transparency Act is likely unconstitutional under the Tenth Amendment, which reserves powers not enumerated to Congress to the States. Laws and regulations regarding the formation of corporate entities are not an enumerated Federal power and have always been reserved to the States. The U.S. government argued that the Corporate Transparency Act is a valid act of Congress under the Commerce Clause and the Necessary and Proper Clause as an extension of Congress’s powers over foreign affairs and taxing authority. However, the Court rejected those arguments and granted the plaintiffs’ request for a preliminary injunction.

### Scope of the Preliminary Injunction

The preliminary injunction is a nationwide injunction and it both prevents the Financial Crimes Enforcement Network (FinCEN), a U.S. Department of the Treasury Agency with responsibility to enforce the Corporate Transparency Act and the Reporting Rules, from enforcing the Corporate Transparency Act and the Reporting Rules. The Court also stayed the compliance deadline of January 1, 2025 for any entity that would have been required to comply with the Reporting Rules by that date. Reporting Companies formed prior to 2024 had a compliance deadline of January 1, 2025, and Reporting Companies formed during 2024 were required to comply within 90 days of formation. As a result of this preliminary injunction, Reporting Companies are no longer required to file beneficial ownership reports until further notice.

### Next Steps

On Friday, December 6, 2024, the U.S. government filed a notice of appeal to the Fifth Circuit. It is possible that the Fifth Circuit will stay the preliminary injunction, which would allow enforcement of the Reporting Rules and also reimpose the January 1, 2025 deadline for compliance. Therefore, we are closely monitoring the case for any indication that the Fifth Circuit might overrule the district court and stay the preliminary injunction.

Given the Fifth Circuit’s composition and recent precedent decisions, we do not believe it is likely that such a stay will be granted. Therefore, we are not recommending making any filings until further notice. However, if organizations have not yet begun preparation and are concerned about a year-end emergency, it may still be worthwhile to make plans for filing in the unlikely event that the injunction is lifted.

FinCEN has made a statement regarding the decision, stating that “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.” Following the issuance of the preliminary injunction, some speculated that

FinCEN may extend the deadline unilaterally given the proximity of the decision to the existing deadline. However, FinCEN did not grant any such extension.

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## Key Contacts

The Morrison Cohen [Investment Funds & Advisers](#) and [Corporate](#) teams are available to answer any questions regarding the impact of the decision or plans to comply with the Corporate Transparency Act and the Reporting Rules.

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