

UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF TEXAS ENTERS PRELIMINARY INJUNCTION SUSPENDING ENFORCEMENT OF THE CORPORATE TRANSPARENCY ACT

December 6, 2024

On December 3, 2024, the United States District Court for the Eastern District of Texas (Sherman Division) entered a preliminary injunction suspending enforcement of the Corporate Transparency Act (CTA) and its implementing regulations nationwide, concluding that the CTA is likely unconstitutional in exceeding congressional power under the U.S. Constitution.¹ (For information on the CTA and its reporting requirements, please see our prior [Client Advisory](#)).

In the Texas litigation, the plaintiffs challenged the CTA on several constitutional grounds. The Court evaluated the government's arguments that the CTA is constitutional under the Commerce Clause and the Necessary and Proper Clause, in the latter case coupled with Congress's enumerated powers to regulate commerce, regulate foreign affairs, and to lay and collect taxes. The Court concluded that these arguments did not justify Congress's enactment of the CTA, and that the plaintiffs had thus met their burden to show substantial likelihood of success on the merits based on the Tenth Amendment to the U.S. Constitution. As a result, a preliminary injunction was issued.

Further, the Court extended its preliminary injunction beyond the plaintiffs in the case, holding that the preliminary injunction should apply nationwide. Under the Court's preliminary injunction, neither the CTA nor its implementing regulations may be enforced, and "reporting companies need not comply with the CTA's January 1, 2025, [beneficial ownership information] reporting deadline pending further order of the Court."²

While the Texas court action addresses the January 1, 2025, deadline for reporting companies formed or registered prior to January 1, 2024, it does not expressly address the compliance deadline for reporting companies formed or registered on or after January 1, 2024 ("new entities"). Therefore, unless a permanent injunction is implemented, new entities will still be required to file their initial beneficial ownership report within 90 or 30 days, depending on whether they are established in 2024 or 2025, respectively. If the preliminary injunction is lifted, additional reporting obligation guidance will likely be needed for all parties involved.

¹ See *Texas Top Cop Shop, Inc. v. Garland*, No. 4:24-cv-00478 (E.D. Tex. Dec. 3, 2024).

² See *id.* at 79.

Importantly, as with prior CTA litigation limited to the specific parties involved in the suit, the government may appeal. Moreover, it is likely that the government will seek an expedited appeal and a stay of the order due to the fast-approaching reporting deadline. Consequently, at this time, as the outcome of the appeal is uncertain, reporting companies may consider continuing to collect the information required to file under the CTA.

If you have any questions or need further guidance regarding the CTA injunction, please contact a member of Hancock Daniel's [Mergers, Acquisitions & Transactions](#) team.

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