

## Court Blocks Corporate Transparency Act: A Win For Federalism?

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In *Texas Top Cop Shop v Garland et al.* ( case 4:24-cv-00478 December 3, 2024 ) , the U.S. District Court for the Eastern District of Texas issued a nationwide preliminary injunction against the enforcement of the Corporate Transparency Act (CTA), questioning its constitutionality and its impact on small businesses. The CTA, enacted as part of broader anti-money laundering efforts, mandates companies to disclose their beneficial ownership information to a federal database maintained by the Financial Crimes Enforcement Network (FinCEN).

### **The Court's Reasoning**

Judge Mazzant's opinion strongly rebuked the CTA for overstepping constitutional boundaries. He noted that corporate regulation has traditionally fallen within the states' jurisdiction. By mandating federal oversight of corporate ownership, the CTA disrupts the balance of power foundational to the U.S. federalist system. Furthermore, the court found that the act burdens businesses with significant compliance costs—projected to exceed \$22 billion in the first year alone—without clear safeguards against misuse of collected data.

The plaintiffs, including small business owners and a trade association, argued that the CTA compels speech and association, infringing on First Amendment protections. They also raised concerns about privacy violations under the Fourth Amendment, given the extensive personal information required.

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### **Nationwide Injunction**

**The court explicitly determined that the preliminary injunction applies nationwide.** Judge Mazzant noted that both the CTA and the Reporting Rule impact approximately 32.6 million businesses across the United States. Because one of the plaintiffs, the National Federation of Independent Business (NFIB), represents members nationwide, the court concluded that a nationwide injunction was necessary to provide meaningful relief and address the extensive constitutional violations identified.

### **Could the New Trump Administration Stop the CTA Administratively?**

A potential Trump administration could take several steps to limit or halt the enforcement of the CTA administratively, should it choose to prioritize deregulation:

**Revisiting Implementing Regulations:** The administration could direct the Treasury Department and FinCEN to review the implementing regulations of the CTA. Agencies could delay enforcement by revising or repealing these rules, a process that would require notice-and-comment rulemaking under the Administrative Procedure Act.

**Resource Allocation:** A new administration could deprioritize enforcement of the CTA by limiting the funding and staffing dedicated to compliance oversight and enforcement. While the act remains on the books, enforcement actions would effectively be curtailed.

**Policy Guidance:** Through executive actions or agency memos, the administration could issue guidance limiting the circumstances under which beneficial ownership information is collected or used, effectively narrowing the law's application.

**Legislative Collaboration:** The administration could work with Congress to repeal or amend the CTA, potentially eliminating or significantly reducing its scope. This would require legislative action, which may depend on the composition of Congress.

While these administrative measures could limit enforcement, they do not eliminate the statutory obligations under the CTA. Businesses would remain legally required to comply unless the law itself is repealed or permanently enjoined by the courts.

## Recommended Steps for Businesses

Considering this nationwide injunction and potential administrative changes, businesses must carefully evaluate their next steps regarding compliance with the CTA. Here's a breakdown for two categories of businesses:

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### Businesses That Have Filed with FinCEN:

**Pause Compliance Efforts:** The injunction currently halts enforcement of the CTA. While FinCEN may appeal, no immediate action is required at this stage.

**Monitor Legal and Administrative Developments:** Stay updated on litigation outcomes and any policy shifts under the next administration.

**Protect Data:** Ensure that any previously submitted beneficial ownership information is safeguarded against potential misuse.

### Businesses That Have Not Filed with FinCEN:

**Delay Filing:** The nationwide injunction means that no business is currently required to comply with the CTA, but further guidance or court decisions could reinstate the act's enforceability.

**Consult Legal Counsel:** Businesses should work with legal advisors to evaluate their exposure under the CTA if the injunction is lifted or enforcement resumes.

**Prepare for Potential Compliance:** If the injunction is overturned on appeal, businesses may need to act quickly to meet reporting deadlines. Having compliance mechanisms in place will help mitigate risks.

### Broader Implications

This decision raises important questions about the role of federal regulation in combating global financial crimes. The CTA's supporters argue that the act is vital for transparency, aligning the U.S. with international anti-money laundering standards. Opponents, however, view the CTA as an overreach that jeopardizes privacy and burdens small businesses disproportionately.

### A Precedent for Federalism

Legal analysts have hailed the ruling as a significant defense of federalism. Judge Mazzant reaffirmed that the Constitution's constraints on federal power remain relevant even in addressing modern challenges. This case could set a precedent for courts to scrutinize federal initiatives that intrude into areas historically managed by states.

### The Road Ahead

The nationwide injunction marks only the beginning of what is likely to be a protracted legal battle. The decision will almost certainly be appealed, and its outcome could shape the future of federal regulatory authority. Additionally, a potential new administration may take steps to limit the CTA administratively, adding another layer of uncertainty for businesses. For now, the ruling serves as a reminder of the judiciary's role in checking federal overreach, even when well-intentioned policies are at stake.