

The HR WIRE

- ETC HR Employer Compliance News Week in Review -

Making Compliance Connections

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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 temporarily blocking the enforcement of the Corporate Transparency Act (CTA) and its reporting rule, questioning its constitutionality and its impact on small businesses. The district court's injunction against the CTA represents a significant legal development with broad implications for businesses nationwide.

The CTA, enacted back in 2021, mandates that most U.S. companies report personal identifying information about their beneficial owners to FinCEN as part of efforts to combat money laundering, sanctions busting, and other illicit financing. The court's ruling temporarily suspends these obligations, including the disclosure beneficial ownership information requirements, giving companies a temporary reprieve from the impending January 1 compliance deadline.

The nationwide injunction marks only the beginning of what is likely to be a legal battle as this decision will almost certainly be appealed to the 5th Circuit Court of Appeals and if further appealed, to the U.S. Supreme Court, if they elect to hear the case.

Considering this nationwide injunction and potential administrative changes, businesses must carefully evaluate their next steps regarding compliance with the CTA. While legal measures could limit enforcement, they do not altogether eliminate the statutory obligations under the CTA. Businesses remain legally required to comply unless the law itself is repealed or permanently enjoined by the courts.

The 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.

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.