

Anti-Money Laundering

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Lump of Coal in the CTA Stocking: Texas Federal Court of Appeals Stays Injunction Against Corporate Transparency Act

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Overview

The U.S. Court of Appeals for the Fifth Circuit has granted the government's motion to stay the Eastern District of Texas' December 3 nationwide preliminary injunction enjoining enforcement of the Corporate Transparency Act (CTA).¹ In holding that a stay of the injunction was justified, the appeals court concluded that the CTA likely is constitutional under the Commerce Clause. The Fifth Circuit also ordered that the appeal of the district court's decision be expedited to the next available oral argument panel. The ruling comes just one week prior to the original January 1, 2025 reporting deadline for entities formed prior to 2024.

As discussed in our prior client alert,² since becoming effective on January 1, 2024, the CTA has faced constitutional challenges in several U.S. federal district courts, with different courts arriving at different conclusions as to the CTA's constitutionality.³ The plaintiffs in these cases have alleged that the CTA violates multiple clauses of the Constitution, including the First, Fourth, Fifth, Eighth, Ninth, and Tenth Amendments.⁴ The decision from the Fifth Circuit is the first from a federal appeals court, though challenges are also currently pending in the Fourth, Ninth, and Eleventh Circuits.

***Texas Top Cop Shop, Inc. v. Garland* Original Preliminary Injunction and Appeal**

On December 3, the U.S. District Court for the Eastern District of Texas enjoined enforcement of the CTA, as it found the CTA to be "likely unconstitutional."⁵ The district court held that enforcement of the CTA before a final judgment was reached would cause irreparable harm due to the nonrecoverable costs of complying with the law. In its reasoning, the district court also noted that the injury to plaintiffs would outweigh any potential harm to the government caused by the injunctive relief. Notably, the district court ruled that the preliminary injunction should apply nationwide, not just to the plaintiffs in the case or to those within its jurisdiction.⁶

On appeal, the Fifth Circuit Court of Appeals found that (1) the CTA is likely a constitutional exercise of Congress's broad authority to regulate economic activity under the Commerce Clause; and (2) enjoining the CTA did, in fact, cause irreparable harm to the government. The appeals court also observed that a nationwide injunction was not requested by any party to the original case, implying that the injunction was an overbroad remedy.

Implications of the Stay

Given that the appeals court ruling stays the lower court's injunction against enforcement of the CTA, the CTA is now in effect once again. However, in light of the fact that CTA compliance was put on hold for three weeks between the issuance of the district court's injunction and the appeals court's stay of that injunction, FinCEN has granted extensions to the filing deadlines for some reporting companies.⁷ The deadline extensions only apply to entities created or registered to do business in the United States during or prior to 2024; entities created or registered to do business in 2025 still have just 30 days from such date to file. The extended reporting deadlines for companies filing initial reports are as follows:

Companies Formed or Registered to Do Business in the US	Original Deadline	New Deadline
Before 1/1/2024	1/1/2025	1/13/2025
1/1/2024-9/3/2024	3/31/2024-12/2/2024	Unchanged
9/4/2024-9/24/2024	12/3/2024-12/23/2024	1/13/2025
9/25/2024-12/2/2024	12/24/2024-3/2/2025	Unchanged
12/3/2024-12/23/2024	3/3/2025-3/23/2025	3/24/2025-4/13/2025

Entities that qualify for disaster relief may have extended deadlines that fall beyond January 13, 2025. These companies should abide by whichever deadline falls later. We recommend that companies consult with their legal advisors to assess their reporting obligations under the CTA and the appropriate filing deadlines.

Lowenstein Sandler continues to monitor the legal landscape surrounding the CTA. For more information on the CTA and assistance with regulatory compliance, please contact the authors of this article or LSAMLCTA@lowenstein.com.

¹ *Texas Top Cop Shop, Inc. v. Garland*, No. 24-40792, Dkt. No. 140 (5th Cir. Dec. 23, 2024), unpublished order. See the original case and resulting injunction at *Texas Top Cop Shop, Inc. v. Garland*, 4:24-cv-00478 (ALM), Dkt. No. 30 (E.D. Tex. Dec. 3, 2024).

² See *Texas Federal District Court Rules Corporate Transparency Act Likely Unconstitutional, Issues Nationwide Preliminary Injunction*, Dec. 4, 2024, available [here](#).

³ See *National Small Business United d/b/a National Small Business Ass'n v. Janet Yellen*, 5:22-cv-01448 (LCB), Dkt. No. 51 (N.D. Ala. Mar. 1, 2024) (holding that the CTA is unconstitutional and enjoining the U.S. government from CTA enforcement against the plaintiffs); *but see Michael Firestone v. Janet Yellen*, 3:24-cv-1034 (SI), Dkt. No. 18 (D. Or. Sept. 20, 2024) (holding that plaintiffs failed to show that the CTA will likely be deemed unconstitutional).

⁴ See, e.g., *Firestone*, 3:24-cv-1034 (SI), Dkt. No. 18.

⁵ See *Texas Top Cop Shop, Inc. v. Garland*, 4:24-cv-00478 (ALM), Dkt. No. 30 (E.D. Tex. Dec. 3, 2024).

⁶ See *id.* at 74-77.

⁷ See *FinCEN Beneficial Ownership Reporting Information*, available [here](#).

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