

COURT RULES THAT THE CTA IS UNCONSTITUTIONAL: ENFORCEMENT OF THE CTA IN LIMBO

Posted on May 21, 2024 by Sarah J. Luem



Since the passage of the Corporate Transparency Act ("CTA") and the implementation of the associated regulations, various parties have been arguing that the statute was an overreach and unconstitutional. We have been waiting to see how courts ruled on this – and we now have our first answer – with the initial court win going to small business owners.

On March 1, 2024, the United States District Court for the Northern District of Alabama ruled that the Corporate Transparency Act (CTA) is unconstitutional.

As we have previously discussed in other articles, the CTA was passed by Congress in 2020 and became effective on January 1, 2024. The law was intended to combat money laundering, terrorism financing, and other illicit activities by requiring certain businesses to disclose their "beneficial ownership information" to the Financial Crimes Enforcement Network (FinCEN).

However, critics argued that the CTA imposed undue burdens on small businesses, violated privacy rights, and potentially jeopardized confidential business information. The National Small Business Association, along with other plaintiffs, filed suit in 2022 challenging the constitutionality of the CTA, asserting that the law exceeded Congress's authority under the Commerce Clause and violated the

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Fourth Amendment's prohibition against unreasonable searches and seizures.

In a that was issued late Friday afternoon, U.S. District Court Judge Liles C. Burke granted summary judgment for the National Small Business Association, holding that the CTA "exceeds the Constitution's limits on the legislative branch and lacks a sufficient nexus to any enumerated power to be a necessary or proper means of achieving Congress' policy goals."

While the court's decision directly impacts the enforcement of the CTA within the Northern District of Alabama, its broader implications remain subject to interpretation. Typically, when a federal court declares a statute unconstitutional, its decision applies only within the court's jurisdiction unless affirmed by a higher court or applied in subsequent cases across different jurisdictions.

It is a near certainty that the US Department of Treasury will appeal this decision to the Eleventh Circuit Court of Appeals. **But in the interim, this has raised questions about the enforceability of the CTA throughout the country – and it is currently unclear whether FinCEN will continue to attempt to enforce the CTA's reporting requirements pending further litigation.**

Updates to follow.

Update (April 22, 2024):

In a statement issued immediately after the ruling, FinCEN indicated that it has filed a Notice of Appeal and that, while the litigation is ongoing, it intends to "continue to implement the Corporate Transparency Act...while complying with the court's order." It is FinCEN's position that the ruling applies only to the particular individuals and entities that were a party to *National Small Business United v. Yellen* – **and that all other reporting companies are still required to comply with the law and meet all CTA filing deadlines.**

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