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Corporate Transparency Act – Fate Unknown?

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The Corporate Transparency Act (the “CTA”) is a federal law that went into effect on January 1, 2024, aimed at preventing illegal financial activities by increasing transparency in business ownership. The CTA requires certain companies to disclose information about the company’s “beneficial owners” to the Financial Crimes Enforcement Network (“FinCEN”). A “beneficial owner” is anyone who, directly or indirectly, owns 25% or more of the company or who exercises significant control over it. In most instances, companies were required to report their beneficial ownership information to FinCEN no later than January 1, 2025, to avoid penalties.

Since its inception, many have argued that the CTA is an example of governmental overreach and is overly burdensome to small businesses. Others, however, have argued that the CTA’s reporting requirements are a simple administrative task that imposes limited requirements on businesses and, at worst, are a small price to pay to protect against money laundering and other financial crimes.

The U.S. District Court for the Eastern District of Texas agreed with the former argument and on December 3, 2024, granted a nationwide preliminary injunction stating, among other things, that reporting companies do not need to comply with the CTA’s January 1, 2025, reporting deadline for filing beneficial ownership information. The U.S. government quickly filed an appeal against this ruling.

Regardless of the outcome of the appeal, the case may be further appealed to the Supreme Court. Likewise, with a new administration taking office in January, enforcement may be limited or reduced. While a final decision may not be rendered until 2025 or later, businesses are encouraged to keep track of their beneficial owners as good corporate practice, allowing them to react quickly if the injunction is overturned. Until then, the fate of the CTA is unknown.

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