

Corporate Transparency Act Update: Federal District Court Rules CTA Unconstitutional

March 4, 2024

Although existing entities covered by the Corporate Transparency Act ("CTA") should still plan to comply with the beneficial ownership reporting ("BOI") requirements, a new federal district court ruling offers hope that the requirements may change. On March 1, 2024, the Federal District Court in the Northeastern Division of Alabama ruled last Friday that the CTA is unconstitutional in *National Small Business United, d/b/a the National Small Business Assoc. v. Yellen*.

The *NSBA Court* ruling opens by stating that the CTA illustrates the principal that "even in the pursuit of sensible and praiseworthy ends, Congress sometimes enacts smart laws that violate the Constitution." The Court reviewed and rejected the three sources of constitutional authority that the Government offered, which were its foreign affairs power, its Commerce Clause authority, and its taxing power. The *NSBA Court* concluded that Congress overstepped the boundaries by enacting a law that "lacks sufficient nexus" to any enumerated power to be a necessary or proper means of achieving the policy goals of Congress. Although not yet announced, many in the legal industry believe the government will appeal the decision.

Barring further developments:

- For those forming new entities in 2024, you still need to comply with the reporting obligations of the CTA within 90 days of formation.
- Entities that have already reported will also need to continue to timely report changes to BOI (within 30 days).
- Entities that existed prior to January 1, 2024, should also still plan to comply with the BOI requirements no later than January 1, 2025 but should continue to watch for additional developments or changes prior to that time.

For a summary of CTA reporting requirements and future updates, please go to our Corporate Transparency Act Resource Center or contact your Lathrop GPM attorney for more information.