

## District Court rules Corporate Transparency Act is unconstitutional

March 7, 2024 | Client Update | 3-minute read

The U.S. District Court, Northern District of Alabama held that the Corporate Transparency Act is unconstitutional and permanently enjoined enforcement of the Act against the plaintiffs – the National Small Business Association, its members as of March 1, 2024, Isaac Winkles and all of the reporting companies for which Mr. Winkles is the beneficial owner or company applicant. Compliance with the Corporate Transparency Act is still required for all companies not covered by the ruling.

Under the Corporate Transparency Act (CTA) and its implementing regulations, certain legal entities must submit beneficial ownership information (BOI) reports to the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN).<sup>1</sup> On March 1, 2024, Judge Liles C. Burke of the U.S. District Court for the Northern District of Alabama found the Corporate Transparency Act (CTA) to be unconstitutional and enjoined enforcement of the CTA against the National Small Business Association (NSBA), its members as of March 1, 2024, Isaac Winkles and reporting companies for which Isaac Winkles is the beneficial owner or applicant.<sup>2</sup>

Granting the plaintiff's motion for summary judgment, the District Court specifically rejected the government's arguments that the CTA is within Congress' broad powers to regulate commerce, oversee foreign affairs and national security, and impose taxes and related regulations. The District Court specifically held that the CTA exceeds the Constitution's limits on Congress and "lacks a sufficient nexus to any enumerated power to be a necessary or proper means of achieving Congress' policy goals." Notably, the District Court also provided suggestions on how Congress could amend the CTA to fit within the Constitution's Commerce Clause, namely by imposing the CTA's reporting requirements on legal entities once they are engaged in commerce.

On March 4, 2024, FinCEN issued a [notice](#) acknowledging that the District Court's permanent injunction is limited and only prohibits FinCEN from enforcing the CTA's BOI reporting requirements against the plaintiffs, as noted above. Accordingly, all other reporting companies will be expected to comply with the CTA and its implementing regulations.

In the near term, we expect the U.S. government to file an appeal and seek a stay of the District Court's decision while the appeal is pending. We also expect additional plaintiffs will challenge the CTA, potentially leading to the Supreme Court ultimately deciding whether the CTA is constitutional.<sup>3</sup>

Given the limited impact of the District Court's opinion, we recommend all non-exempt reporting companies not covered by the injunction to continue to timely comply with the CTA's BOI reporting requirements.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

**Kendall Howell**

+1 202 962 7068  
kendall.howell@davispolk.com

**Paul Marquardt**

+1 202 962 7156  
paul.marquardt@davispolk.com

**Will Schisa**

+1 202 962 7129  
will.schisa@davispolk.com

**Daniel P. Stipano**

+1 202 962 7012  
dan.stipano@davispolk.com

**Charles Marshall Wilson**

+1 202 962 7130  
charles.wilson@davispolk.com

*This communication, which we believe may be of interest to our clients and friends of the firm, is for general information only. It is not a full analysis of the matters presented and should not be relied upon as legal advice. This may be considered attorney advertising in some jurisdictions. Please refer to the firm's privacy notice for further details.*

- <sup>1</sup> Our previous client updates on the CTA (which can be found [here](#), [here](#) and [here](#)) provide further detail on BOI reporting requirements.
- <sup>2</sup> *Nat'l Small Bus. United et al v. Yellen et al*, No. 5:22-cv-01448 (N.D. Ala. Mar. 1, 2024).
- <sup>3</sup> For example, a party in the Northern District of Ohio has filed a similar challenge of the CTA, but seeks a nationwide injunction against the enforcement of the CTA. See *Complaint, Robert J. Gargasz Co. v. Yellen*, No. 1:23-cv-02468 (N.D. Ohio Dec. 29, 2023).