



Federal District Court in Alabama Holds Corporate Transparency Act Unconstitutional and Enjoins Enforcement Against Plaintiffs

March 4, 2024

Reading Time : **2 min**

By: Nnedinma C. Ifudu Nweke, Andrew R. Schlossberg, John A. Gurtunca, Kapil Vishnu Pandit, Brian T. Daly, Barbara Niederkofler, James E. Tysse, Lide E. Paterno

A U.S. District Court judge in Alabama recently ruled that the Corporate Transparency Act (“CTA”) is unconstitutional. The CTA, which was enacted on January 1, 2021, directs the U.S. Department of the Treasury’s Financial Crimes Enforcement Network (“FinCEN”) to establish a nationwide database of beneficial ownership of certain corporations and other legal entities, as described here and here.

The plaintiffs in this case—the National Small Business Association (“NSBA”) and one of its members—sued in November 2022, seeking a permanent injunction against the implementation of the CTA and FinCEN’s reporting rules. On March 1, 2024, a U.S. District Court judge in Alabama ruled that the CTA is unconstitutional because it “exceeds the Constitution’s limits on the legislative branch” and fails the “necessary and proper” test.

The court’s injunction is limited to the plaintiffs in the case (i.e., the individual plaintiff and the NSBA). It is unclear at this point if the injunction will be understood to apply to all of the approximately 65,000 individual members of the NSBA or only to the association.

This decision will not be the end of the matter because:

- The U.S. government is likely to appeal this decision to the U.S. Court of Appeals for the Eleventh Circuit, and may seek an interim stay of the ruling from both the trial and appellate courts;

- FinCEN may offer comments about the impact of the ruling on CTA implementation and enforcement in the coming days; and
- It is possible that this ruling will inspire “copycat” suits in other districts.

As the injunction only applies to enforcement of the CTA against the plaintiffs, other reporting companies (who are not plaintiffs in this case) are still bound by the CTA and should continue to comply unless exempt until further notice.

Finally, a number of states (e.g., New York, as described [here](#)) have passed or are planning to pass into law their own versions of the CTA. This ruling does not affect the implementation of those laws, as it is based on interpretations of Congress’s authority under the U.S. Constitution. Note, however, that the court declined to address different grounds raised by the NSBA that could potentially be used to challenge state-level legislation.

Akin will continue to monitor this litigation and its implications on the future of the CTA.

If you require assistance or have any questions regarding this alert, please feel free to reach out to your Akin relationship attorney or any of the authors.

Authors



Nnedinma C. Ifudu Nweke

Partner

☎ +1 202.887.4013



Andrew R. Schlossberg

Counsel

☎ +1 202.887.4314



John A. Gurtunca

Associate

☎ +1 202.887.4122



Kapil Vishnu Pandit

Partner

+1 202.887.4164



Brian T. Daly

Partner

+1 212.872.8170



Barbara Niederkofler

Partner

+1 212.872.8149



James E. Tysse

Partner

+1 202.887.4571



Lide E. Paterno

Counsel

+1 202.887.4078

Related Services, Sectors, and Regions

Export Controls & Economic Sanctions



International Trade



Investment Funds Litigation



© 2024 Akin Gump Strauss Hauer & Feld LLP. All rights reserved. Attorney advertising. This document is distributed for informational use only; it does not constitute legal advice and should not be used as such. Prior results do not guarantee a similar outcome. Akin is the practicing name of Akin Gump LLP, a New York limited liability partnership authorized and regulated by the Solicitors Regulation Authority under number 267321. A list of the partners is available for inspection at Eighth Floor, Ten Bishops Square, London E1 6EG. For more information about Akin Gump LLP, Akin Gump Strauss Hauer & Feld LLP and other associated entities under which the Akin Gump network operates worldwide, please see our Legal Notices page.