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## Corporate Transparency Act Ruled Unconstitutional

By: Kayla Perry

Shortly after going into effect, the Corporate Transparency Act (“CTA”) has been declared unconstitutional by a federal district court in the Northern District of Alabama.

In November 2022, the National Small Business Association (“NSBA”) filed suit against the U.S. Treasury Department (“Treasury”) in the Northern District of Alabama alleging the mandatory disclosure requirements of the CTA violate the First, Fourth, Fifth, Ninth, and Tenth Amendments of the Constitution. The Treasury argued the CTA falls within Congress’ authority to regulate foreign affairs involving national security, interstate commerce, and the administration of taxes.

On March 1, 2024 Judge Liles Burke granted summary judgment for the NSBA, holding that the CTA is unconstitutional because it exceeds the powers granted to Congress by the Constitution. He rejected the Treasury’s argument, determining that (i) Congress’ foreign affair powers do not authorize the CTA because those powers do not extend purely to internal affairs, (ii) the CTA does not regulate commerce on its face, and (iii) the chain linking the collection of “useful” data under the CTA to Congress’ taxing power is weak. Judge Burke made no ruling on the constitutionality of the CTA on any other grounds.

The Treasury Department released a statement that it will comply with the court’s order and will not enforce the CTA against the plaintiffs, (*i.e.* the NSBA and its members). However, all other Reporting Companies are required to comply with the disclosure requirements of the CTA.

Rich May will continue monitoring any legal developments related to the CTA, as it is anticipated the Treasury will appeal and this litigation will continue to make its way through the courts. Additionally, this ruling has set precedent which could potentially allow more Reporting Companies to challenge the CTA in other jurisdictions.

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