

# Market Perspectives - CTA Preliminary Injunction

## December 2024



### FEDERAL COURT TEMPORARILY HALTS REQUIREMENTS OF CORPORATE TRANSPARENCY ACT

On December 3, 2024, a federal district court in Texas issued a nationwide preliminary injunction to bar the enforcement of the Corporate Transparency Act ("CTA") and its reporting rules. As a result, the impending January 1, 2025 deadline for covered entities to file beneficial owner reports with the Financial Crimes Enforcement Network ("FinCEN") has been put on hold for the time being.

Importantly, given the nature of the decision, this preliminary injunction could be lifted at any time as litigation about the CTA works its way through the courts, so entities must be prepared to promptly complete the filings required by the CTA should the injunction be lifted. We will continue to update you as further developments arise. If you have questions related to the CTA or this court decision, please get in touch with your Turtle Creek team.



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# Get Ahead of Filing Obligations under Corporate Transparency Act



Certain corporations, LLCs, limited partnerships, and other similar entities **created before January 1, 2024** may have an obligation under the Corporate Transparency Act (“CTA”) to disclose their “beneficial ownership” information to the Financial Crimes Enforcement Network (“FinCEN”) **by January 1, 2025**.

The CTA was adopted to enhance transparency to combat money laundering and terrorism financing. Yet, its reporting obligations create a potentially significant burden on millions of private U.S. companies, including family-owned businesses and other estate planning type corporate and partnership structures.

The rules of the CTA are complex, but here are some key points to keep in mind.

## **Entities Require to Disclose Beneficial Ownership**

Most corporations, LLCs, limited partnerships and other similar entities are subject to this reporting requirement, unless they qualify for an exemption.

These exemptions include:

- Larger companies with more than 20 full-time employees and over \$5 million in domestic gross receipts/sales as reported on prior year tax return,
- Certain highly regulated entities (e.g., banks, insurance companies, and registered investment companies),
- Nonprofit organizations, including private foundations, and
- Entities, such as general partnerships, that are not required to register with the Secretary of State or other similar office.

## **Required Information**

Entities that are required to file a report with FinCEN must submit the following information:

- The name, address, date of birth, and ID number (like a driver’s license or passport number) of each beneficial owner, as well as a photocopy of the document with the identification number.
- The entity’s name, address, and ID number.

Beneficial owners generally mean individuals who, directly or indirectly, own or control at least 25% of the entity or have

substantial control over it. The rules become more complex when trusts are involved.

## **Who Will Prepare and File the Report**

Clients should look to their CPA or attorney to assist them in timely filing their required reports with FinCEN.

Many CPAs have taken the position that CTA reporting is not a service that they can or will provide and, therefore, are pointing clients to their attorneys.

Clients should contact their CPA and/or attorney to determine (a) what obligations they have to file a report with FinCEN and (b) who will actually handle the work.

## **Deadlines**

This alert focuses on FinCEN filing requirements for entities created in years before 2024. Reports for those entities must be filed by January 1, 2025.

For entities created on or after January 1, 2024, the reporting deadline is 30 days after the creation of the entity.

After initial filing, a reporting company must update their reports within 30 days if there are any changes to the required information for the company or its beneficial owners (including a change of address for the owner).

## **Penalties for Non-Compliance**

The failure to timely and accurately file the required reports can result in severe civil penalties (up to \$500 per day) and, in certain cases, can even include criminal penalties (fines or even imprisonment).

## **Next Steps**

We strongly encourage you to reach out to your CPA or attorney to determine:

- (1) What entities, if any, require a disclosure to FinCEN as a result of the CTA?
- (2) For entities required to disclose, what beneficial ownership information must be disclosed?
- (3) Who will be responsible for filing the disclosure with FinCEN to comply with the CTA’s required deadlines?

Please contact your Turtle Creek team if you would like us to discuss this topic further.