



Will Recent Alabama Ruling Stay Implementation of the Corporate Transparency Act?

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On March 1, 2024, the United States District Court for the Northern District of Alabama held that the Corporate Transparency Act (“CTA”) was unconstitutional. Whether this ruling will stay the implementation of the CTA is not yet known—the District Court anticipates further rulings and this matter is certainly going to be appealed to the 11th Circuit Court of Appeals. Please stay tuned for further updates as they develop.

In making its ruling, the District Court rejected the Government’s arguments that Congress had three sources of constitutional authority for enacting the CTA – (1) Congress’ foreign affairs powers, (2) the Commerce Clause, and (3) Congress’ taxing powers.

The District Court rejected the CTA’s constitutionality under Congress’ foreign affairs powers reasoning that these powers do not “extend to purely internal affairs...” such as the CTA.

The District Court also rejected the CTA’s constitutionality under the Commerce Clause. The Commerce Clause grants Congress the “Power...To regulate Commerce with foreign Nations, and among the several States.” U.S. Const. Art. I, § 8, cl. 3. The District Court rejected the Commerce Clause power holding that (1) the CTA does not regulate the channels and instrumentalities of commerce and (2) that there are not sufficient “substantial effects” on interstate commerce interposed by the CTA.

Finally, the District Court rejected the CTA’s constitutionality under Congress’s taxing powers. Holding that the CTA’s civil penalties are not taxes, the Court held that the CTA’s collection of data which could be “useful” to tax-enforcement officials was not a sufficient exercise of the taxing powers.

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Starting with our first lectures on the CTA in 2022, Foster Swift has indicated that the CTA was likely to be challenged on constitutional grounds. Since its implementation on January 1, 2024, this is the first of these challenges to culminate in a Court's opinion. Please look for additional updates as these challenges work their way through the system.
