



CAI Lawsuit: Corporate Transparency Act Exemption

Frequently Asked Questions (June 14, 2024)

Overview: The Anti-Money Laundering/Corporate Transparency Act, enacted in 2021, requires entities to report business ownership information yearly to the Department of Treasury or face strict penalties. Community associations, also known as homeowners associations, condominium associations, and housing cooperatives, account for more than 350,000 nonprofit, local and volunteer-driven organizations throughout the United States. CAI believes the act unintentionally applies to community associations, and that community associations should be exempt from compliance with the act.

What is the Corporate Transparency Act?

The Corporate Transparency Act is a federal law enacted to combat money laundering, terrorist financing, and other illicit activities. It requires corporations, limited liability companies, and similar entities to disclose information about ownership to the Department of Treasury's Financial Crimes Enforcement Network.

What are community associations?

Community associations are nonprofit organizations or business corporations that manage and govern residential communities such as homeowners' associations, condominium associations, and housing cooperatives. They are typically managed by volunteer boards comprised of homeowners in the community. Volunteer boards are responsible for all operations and ensure the association is following the law and community governing documents.

Why is the CAI filing a lawsuit against the Department of Treasury?

CAI seeks an exemption for community associations from the CTA. CAI believes community associations should not be subjected to the same reporting requirements as corporations and LLCs because they operate differently and are nonprofit entities governed by homeowners.

Compliance with CTA will present a measurable, significant burden on volunteer leaders throughout the nation. Associations will be forced to collect personal information, turn it over to the federal government and update it on an ongoing basis to comply with current reporting requirements. The burden of reporting such information is likely to have a chilling effect on volunteerism. Association boards also will incur high administrative costs to comply with the law.

Are any community associations currently exempt from the CTA?



Yes. Community associations that hold an active 501(c)(4) IRS tax exemption are already exempt from filing. In addition, community associations with more than \$5 million in annual revenue and 20 or more employees qualify under the current exemptions.

How does the CTA impact community associations?

The CTA requires entities to report detailed information about their beneficial owners, including personal information about board members. This imposes an administrative burden on community associations, which often operate with limited resources and volunteer leadership.

What are the penalties for a community association's noncompliance with the CTA?

Noncompliance could result in civil penalties of \$500 per day and criminal penalties of up to \$10,000 and up to 24 months in prison for beneficial owners.

What specific exemption is CAI seeking for community associations?

CAI is seeking an exemption excluding community associations from the CTA's beneficial ownership reporting requirements. This would relieve these entities from the burdensome task of reporting detailed ownership information to the Department of Treasury.

What are the main arguments in CAI's lawsuit?

CAI's main arguments include:

- Community associations are fundamentally different from the entities the CTA intends to regulate.
- The reporting requirements are overly burdensome for nonprofit organizations run by volunteers.
- Community associations do not engage in activities the CTA aims to monitor such as money laundering or terrorist financing.

When will the lawsuit be filed?

CAI plans to file the lawsuit this summer.

Why will the lawsuit be filed in the U.S. District Court for the Eastern District of Virginia?

CAI is pursuing this case in the U.S. District Court for the Eastern District of Virginia. It is the sensible venue as CAI is incorporated in the District of Columbia and headquartered in Virginia. The Eastern district is known for having a rapid docket process that allows it to hear cases more quickly than other federal courts and offers the potential for a faster resolution. Finally, the



Eastern district is accustomed to hearing federal statutory and constitutional challenges compared to other jurisdictions.

What is preliminary injunctive relief and why is it being requested?

Preliminary injunctive relief is a court order made at the beginning of a lawsuit that prevents certain actions until the case is resolved. CAI is requesting this relief to temporarily exempt community associations from the CTA's reporting requirements while pursuing the lawsuit.

What are the potential consequences if the lawsuit is unsuccessful?

If the lawsuit is unsuccessful, community associations will be required to comply with the CTA's reporting requirements. This could lead to increased administrative costs and challenges for volunteer-run boards to collect and submit the required information.

How can community association members support the lawsuit?

Members can support the lawsuit by:

- Staying informed about the case's progress.
- Donating to CAI's legal fund to help cover litigation costs.
- Contacting their local representatives to express support to exempt community associations from the CTA.

What is the expected timeline for the lawsuit?

The timeline for legal proceedings can vary, but filing in the U.S. District Court for the Eastern District of Virginia, known for its rapid docket process, suggests initial court action could occur relatively quickly. Updates on significant milestones and developments will be provided to members as they occur.

What results are expected from the lawsuit?

CAI aims to achieve an exemption for community associations from the CTA's reporting requirements. The request for preliminary injunctive relief seeks to protect community associations from these requirements during the legal proceedings.

Where can I find more information about the lawsuit and the CTA?



Members can find more information on CAI's website. Updates on the lawsuit and detailed explanations will be regularly posted. Additionally, CAI's publications will provide ongoing coverage and analysis.

Should community associations be prepared to file by Dec. 31 if the lawsuit is not resolved or the law has not changed?

Yes, community associations should be prepared to comply with the act and file the required beneficial ownership information by Dec. 31 if the lawsuit is not resolved or the law has not been amended. While the CAI is actively pursuing legal action to seek an exemption, it is prudent for associations to prepare to comply to avoid potential penalties and ensure they meet all legal requirements.

Does the law currently apply to community associations?

As of now, the act applies to community associations. The CTA mandates all covered entities, including nonprofit organizations such as community associations, disclose their beneficial owners to the Department of Treasury's Financial Crimes Enforcement Network. However, CAI's lawsuit seeks to change this by obtaining an exemption specifically for community associations. Until a legal exemption is granted or the law is amended, community associations must adhere to the current requirements of the CTA.

What else is CAI doing to assist community associations on this matter?

CAI has been actively advocating for a one-year delay of the CTA with members of Congress. Legislation to delay the act's implementation has successfully passed the House of Representatives and is currently before the Senate Banking Committee. To urge your senators to consider this one-year delay of the CTA click [here](#).

Are there other lawsuits arguing the validity of the CTA?

Currently, there are six pending CTA challenges nationwide:

- [Massachusetts](#): BECMA et al v Yellen (5/29/2024)
- [Texas](#): NFIB et al v Yellen (5/28/2024)
- [Maine](#): William Boyle v. Yellen (3/15/2024)
- [Michigan](#): Small Business Association of Michigan et al v. Yellen (3/1/2024)
- [Ohio](#): Robert J. Gargas Co., L.P.A. et al v. Yellen (12/29/2023)
- [Alabama](#) (appealed): NSBA et al v. Yellen (11/15/2022)



Resources:

www.caionline.org/CTA