SUPREME COURT OF UTAH

Robert C. Steiner and Wendy Steiner-Reed v. Utah State Tax Commission

2019 UT 47 (2019) · No. No. 20180223 · Decided August 14, 2019

SUMMARY

The Utah Supreme Court reviews challenges by Utah resident taxpayers to the treatment of income earned outside Utah and in foreign countries. The court holds that the Dormant Commerce Clause and Dormant Foreign Commerce Clause do not require Utah to apportion the taxpayers' income or allow deductions for foreign income. It also concludes that Utah Code section 59-10-115(2) does not require the claimed foreign-income deduction, affirming in part and reversing in part the tax court's ruling.

CASE DETAILS

COURT	Supreme Court of Utah
WRITING FOR THE COURT	Associate Chief Justice Lee; Chief Justice Durrant; Justice Himonas; Justice Pearce; Justice Petersen
JURISDICTION	Utah
DECIDED	August 14, 2019
DOCKET	No. 20180223
DISPOSITION	other
PROCEDURAL POSTURE	Direct appeal from the Third District tax court's de novo review of a Utah State Tax Commission determination; both parties moved for summary judgment.
STANDARD OF REVIEW	Summary judgment is reviewed for correctness, with no deference to the lower court's legal conclusions. The tax court's de novo review of the Commission's determination was conducted under Utah Code section 59-1-601.
PRECEDENTIAL VALUE	published precedential opinion
PARTIES	Robert C. Steiner, Wendy Steiner-Reed v. Utah State Tax Commission

TOPICS

income tax · state and local tax · tax credits · tax deductions · statutory interpretation

PRACTICE AREAS

state taxation · constitutional law · administrative law · statutory interpretation

QUESTIONS PRESENTED

1. Whether the Dormant Commerce Clause required Utah to apportion the Steiners' residency-based income tax rather than provide a credit for taxes paid to other states.
2. Whether the Dormant Foreign Commerce Clause required Utah to allow a deduction or credit for income earned in foreign countries.
3. Whether Utah Code section 59-10-115(2) required an equitable adjustment excluding the Steiners' foreign income from Utah taxable income.

HOLDINGS

1. Utah's residency-based income tax system, which taxes residents' income and provides a credit for qualifying taxes paid to other states, satisfies the internal-consistency requirement of the Dormant Commerce Clause. The Constitution therefore does not require Utah to apportion the Steiners' income instead.
2. The Dormant Foreign Commerce Clause did not require Utah to grant the Steiners a deduction or credit for foreign income taxes. The court declined to extend foreign-commerce protections to individual taxpayers or S corporation shareholders absent controlling United States Supreme Court precedent.
3. Utah Code section 59-10-115(2) authorizes an equitable adjustment only when the Utah tax code itself imposes the double tax detriment. It does not authorize an adjustment merely because foreign income is taxed by Utah and a foreign sovereign.

KEY QUOTATIONS

> *"We find no controlling precedent from the United States Supreme Court that mandates a decision striking down the challenged Utah tax provisions on dormant commerce grounds. And we uphold their constitutionality on that basis."* (¶ 4)

> *"Because Utah's tax system is internally consistent, we hold that the Steiners' Dormant Commerce Clause challenge fails on the merits."* (¶ 41)

> *"We reverse the tax court and hold that Utah may tax the entirety of the Steiners' foreign income based on their residency in the state."* (¶ 50)

> *"Utah has not taxed their foreign income twice—it has only taxed it once. The second tax detriment they suffered was at the hands of a foreign sovereign."* (¶ 61)

FACTUAL BACKGROUND

Robert and Wendy Steiner were Utah residents who filed joint returns for tax years 2011, 2012, and 2013. Robert held interests in Steiner, LLC, an S corporation shareholder that received pass-through income from Alsco, Inc. and foreign subsidiaries, resulting in domestic and foreign business income being reported on the Steiners' returns. They received federal credits for foreign taxes and claimed Utah credits for taxes paid to other states, but also sought an equitable adjustment excluding foreign income from Utah taxable income.

PROCEDURAL HISTORY

The Tax Commission disallowed the Steiners' claimed equitable adjustment for foreign income, denied their apportionment claim, and recalculated their state tax credit. After paying the assessed deficiency and statutory interest, the Steiners appealed to the Third District tax court. The tax court held that Utah's treatment of income earned in other states complied with the Dormant Commerce Clause but allowed an equitable adjustment for foreign business income based on constitutional concerns. Both parties appealed to the Utah Supreme Court.

DISPOSITION

other

REMAND INSTRUCTIONS

The court reversed the tax court's allowance of the foreign-income equitable adjustment and held that the Utah tax provisions were constitutional and did not authorize the claimed adjustment. The opinion does not state separate detailed remand instructions.

CASES CITED

- DIRECTV v. Utah State Tax Commission, 2015 UT 93, 364 P.3d 1036
- Comptroller of the Treasury of Maryland v. Wynne, 135 S. Ct. 1787 (2015)
- Complete Auto Transit, Inc. v. Brady, 430 U.S. 274 (1977)
- D.H. Holmes Co. v. McNamara, 486 U.S. 24 (1988)
- Freeman v. Hewit, 329 U.S. 249 (1946)
- Spector Motor Service v. O'Connor, 340 U.S. 602 (1951)
- Container Corp. of America v. Franchise Tax Board, 463 U.S. 159 (1983)
- Goldberg v. Sweet, 488 U.S. 252 (1989)
- Oklahoma Tax Commission v. Jefferson Lines, Inc., 514 U.S. 175 (1995)
- Northwest States Portland Cement Co. v. Minnesota, 358 U.S. 450 (1959)
- Salt Lake County v. Holliday Water Co., 2010 UT 45, 234 P.3d 1105
- Itel Containers International Corp. v. Huddleston, 507 U.S. 60 (1993)
- Kraft General Foods, Inc. v. Iowa Department of Revenue & Finance, 505 U.S. 71 (1992)
- Barclays Bank PLC v. Franchise Tax Board of California, 512 U.S. 298 (1994)
- Japan Line, Ltd. v. County of Los Angeles, 441 U.S. 434 (1979)
- Wardair Canada, Inc. v. Florida Department of Revenue, 477 U.S. 1 (1986)
- Maine v. Taylor, 477 U.S. 131 (1986)
- Camps Newfound/Owatonna, Inc. v. Town of Harrison, 520 U.S. 564 (1997)
- Oklahoma Tax Commission v. Chickasaw Nation, 515 U.S. 450 (1995)

- Olsen v. Eagle Mountain City, 2011 UT 10, 248 P.3d 465
- Ivory Homes, Ltd. v. Utah State Tax Commission, 2011 UT 54, 266 P.3d 751
- Utah Department of Transportation v. Carlson, 2014 UT 24, 332 P.3d 900
- Almendarez-Torres v. United States, 523 U.S. 224 (1998)
- Comptroller of the Treasury of Maryland v. Wynne, 135 S. Ct. 1787, 1810 (2015) (Scalia, J., dissenting)

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