SUPREME COURT OF WASHINGTON

Hambleton v. Department of Revenue

181 Wn. 2d 802 (2014) · No. Nos. 89419-1, 89500-7 · Decided October 2, 2014

SUMMARY

The Washington Supreme Court considered consolidated challenges to 2013 amendments to Washington's Estate and Transfer Tax Act concerning the taxation of qualified terminable interest property (QTIP) upon the surviving spouse's death. The court rejected the Estates' separation-of-powers, due-process, impairment-of-contracts, uniformity, estoppel, statute-of-limitations, and final-judgment arguments, reversed summary judgment for the Hambleton estate, and affirmed summary judgment for the Department of Revenue in Macbride.

CASE DETAILS

COURT	Supreme Court of Washington
WRITING FOR THE COURT	Wiggins, J.; Madsen, C.J.; C. Johnson, J.; Owens, J.; Fairhurst, J.; Stephens, J.; González, J.; Gordon McCloud, J.; Dwyer, J. Pro Tem.
JURISDICTION	Washington
DECIDED	October 2, 2014
DOCKET	Nos. 89419-1, 89500-7
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Consolidated review of summary judgment rulings involving challenges to retroactive amendments to Washington's Estate and Transfer Tax Act. The Supreme Court accepted certification of the Hambleton appeal and transferred and consolidated the Macbride appeal.
STANDARD OF REVIEW	Questions of law and summary judgment orders are reviewed de novo. Constitutional challenges to retroactive tax legislation are reviewed under the rational-basis standard for due process; statutory constitutionality is presumed and the challenger bears the burden of proof.
PRECEDENTIAL VALUE	Published Washington Supreme Court opinion; precedential.
PARTIES	Department of Revenue, Estate of Macbride v. Estate of Hambleton, Department of Revenue

TOPICS

tax · trusts · constitutional law · statutory interpretation · administrative law

PRACTICE AREAS

estate and transfer taxation · trusts · constitutional law · administrative law · statutory interpretation

QUESTIONS PRESENTED

1. Whether the legislature's retroactive amendment of the Estate and Transfer Tax Act violated separation of powers.
2. Whether retroactive application of the amendments violated federal or state due process protections.
3. Whether the amendments impaired contractual obligations under the federal or state Contracts Clauses.
4. Whether the amendments violated article VII, section 1 of the Washington Constitution's tax-uniformity requirement.
5. Whether equitable or collateral estoppel barred the Department of Revenue from applying the amendments.
6. Whether the statute of limitations barred the Department's assessment against the Hambleton estate.
7. Whether the Hambleton superior court judgment was final and no longer subject to appeal when the amendments became effective.

HOLDINGS

1. The legislature did not violate separation of powers by retroactively amending the Estate and Transfer Tax Act to broaden the definition of transfer and include QTIP property in the Washington taxable estate, because the amendment did not affect a final judgment, reopen a case, dictate factual findings, or interfere with a judicial function.
2. Retroactive application of the 2013 amendments did not violate due process because the amendments served legitimate legislative purposes and the period of retroactivity was rationally related to those purposes.
3. The 2013 amendments did not unconstitutionally impair contractual obligations because they did not substantially impair the QTIP trusts and were reasonably necessary to serve the State's legitimate fiscal and educational interests.
4. The 2013 amendments did not violate article VII, section 1 because the Washington estate tax is an excise or transfer tax, not a property tax subject to the constitutional uniformity requirement.
5. Equitable estoppel did not bar the Department of Revenue from applying the amendments to the Macbride estate because the estate failed to prove reliance on the Department's position. Collateral estoppel also did not apply because the statutory amendment constituted an intervening change in the applicable legal context.
6. The statute of limitations did not bar the assessment against the Hambleton estate because the Department issued the assessment within the four-year period prescribed by RCW 83.100.095(3).

7. The Hambleton superior court's summary judgment order was not a final judgment no longer subject to appeal when the 2013 amendments became effective, so the amendments applied to the pending appeal.

KEY QUOTATIONS

> *“Retroactive legislation that interferes with vested rights established by judicial rulings interferes with a judicial function or results in manifest injustice or threatens the independence, integrity, or prerogatives of the judicial branch may violate separation of powers.”* (181 Wn. 2d at 820)

> *“Provided that the retroactive application of a statute is supported by a legitimate legislative purpose furthered by rational means, judgments about the wisdom of such legislation remain within the exclusive province of the legislative and executive branches.”* (181 Wn. 2d at 823-24)

> *“Tax legislation is not a promise, and a tax payer has no vested right in the Internal Revenue Code.”* (181 Wn. 2d at 829)

> *“An estate tax is an excise tax because the tax is “not levied on the property of which an estate is composed. Rather it is imposed upon the shifting of economic benefits and the privilege of transmitting or receiving such benefits.””* (181 Wn. 2d at 832)

FACTUAL BACKGROUND

Floyd Hambleton died in 2005, before Washington's stand-alone estate tax became effective, and his estate made a federal QTIP election for a trust benefiting his wife, Helen. Helen died in 2006, and the Department of Revenue assessed additional tax after disallowing the estate's exclusion of the QTIP property from the Washington taxable estate. Thomas Macbride died in 1999, leaving a QTIP trust for his wife, Jessie, who died in 2007; the Macbride estate paid tax on the QTIP property under protest and sought a refund. The 2013 amendments expressly included specified QTIP property in the Washington taxable estate and applied retroactively to estates of decedents dying on or after May 17, 2005.

PROCEDURAL HISTORY

In Hambleton, the superior court granted summary judgment to the estate after the Department of Revenue disallowed a QTIP deduction; the Department appealed. In Macbride, the superior court granted summary judgment to the Department and affirmed agency action concerning taxes paid on QTIP assets; the estate appealed. The Supreme Court consolidated the cases after the legislature enacted the 2013 amendments retroactively applying Washington estate tax to specified QTIP property.

DISPOSITION

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reversed_and_remanded
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REMAND INSTRUCTIONS

Reverse the order granting summary judgment to the Estate of Hambleton and remand for entry of judgment in accordance with the opinion. Affirm the Macbride orders denying summary judgment to the estate, affirming agency action, and granting judgment as a matter of law to the Department of Revenue.

CASES CITED

- In re Estate of Bracken, 175 Wn. 2d 549, 290 P.3d 99 (2012)
- Estate of Hemphill v. Department of Revenue, 153 Wn. 2d 544, 105 P.3d 391 (2005)
- West v. Oklahoma Tax Commission, 334 U.S. 717, 727 (1948)
- Dean v. Lehman, 143 Wn. 2d 12, 25-26, 18 P.3d 523 (2001)
- Fernandez v. Wiener, 326 U.S. 340, 352 (1945)
- United States v. Carlton, 512 U.S. 26, 30-34 (1994)
- Pension Benefit Guaranty Corp. v. R.A. Gray & Co., 467 U.S. 717, 729-30 (1984)
- W.R. Grace & Co. v. Department of Revenue, 137 Wn. 2d 580, 586-87, 602-03, 973 P.2d 1011 (1999)
- Hale v. Wellpinit School District No. 49, 165 Wn. 2d 494, 198 P.3d 1021 (2009)
- Lummi Indian Nation v. State, 170 Wn. 2d 247, 262-63, 241 P.3d 1220 (2010)
- Wash. State Farm Bureau Federation v. Gregoire, 162 Wn. 2d 284, 304, 174 P.3d 1142 (2007)
- Plaut v. Spendthrift Farm, Inc., 514 U.S. 211, 226-27 (1995)
- United States v. Darusmont, 449 U.S. 292, 297-300 (1981)
- Montana Rail Link, Inc. v. United States, 76 F.3d 991, 993-94 (9th Cir. 1996)
- Enterprise Leasing Co. of Phoenix v. Arizona Department of Revenue, 221 Ariz. 123, 125-29, 211 P.3d 1 (Ct. App. 2008)
- Quarty v. United States, 170 F.3d 961, 966-67 (9th Cir. 1999)
- Blodgett v. Holden, 275 U.S. 142 (1927)
- Untermyer v. Anderson, 276 U.S. 440 (1928)
- United States v. Hemme, 476 U.S. 558, 568 (1986)
- In re Personal Restraint of Carrier, 173 Wn. 2d 791, 810-11, 272 P.3d 209 (2012)
- Godfrey v. State, 84 Wn. 2d 959, 963, 530 P.2d 630 (1975)
- In re F.D. Processing, Inc., 119 Wn. 2d 452, 460, 463, 832 P.2d 1303 (1992)
- Energy Reserves Group, Inc. v. Kansas Power & Light Co., 459 U.S. 400, 410-11 (1983)
- Home Building & Loan Association v. Blaisdell, 290 U.S. 398, 434 (1934)
- Allied Structural Steel Co. v. Spannaus, 438 U.S. 234, 244 (1978)
- Haberman v. Washington Public Power Supply System, 109 Wn. 2d 107, 143, 145, 744 P.2d 1032, 750 P.2d 254 (1987)
- Crane v. Hahlo, 258 U.S. 142, 146 (1922)
- Caritas Services, Inc. v. Department of Social and Health Services, 123 Wn. 2d 391, 404-05, 869 P.2d 28 (1994)
- Margola Associates v. City of Seattle, 121 Wn. 2d 625, 653, 854 P.2d 23 (1993)
- Veix v. Sixth Ward Building & Loan Association, 310 U.S. 32, 38 (1940)
- Carlstrom v. State, 103 Wn. 2d 391, 394, 694 P.2d 1 (1985)
- McCleary v. State, 173 Wn. 2d 477, 517, 269 P.3d 227 (2012)
- Kramarevcky v. Department of Social and Health Services, 122 Wn. 2d 738, 743-44, 863 P.2d 535 (1993)

- City of Seattle v. St. John, 166 Wn. 2d 941, 948-49, 215 P.3d 194 (2009)
- Nielson v. Spanaway General Medical Clinic, Inc., 135 Wn. 2d 255, 262-63, 956 P.2d 312 (1998)
- Anfinson v. FedEx Ground Package System, Inc., 174 Wn. 2d 851, 861, 281 P.3d 289 (2012)
- Arkison v. Ethan Allen, Inc., 160 Wn. 2d 535, 538-39, 160 P.3d 13 (2007)
- New Hampshire v. Maine, 532 U.S. 742, 750-51 (2001)
- State v. Elmore, 154 Wn. App. 885, 905, 228 P.3d 760 (2010)
- Belas v. Kiga, 135 Wn. 2d 913, 919-20, 959 P.2d 1037 (1998)
- Amunrud v. Board of Appeals, 158 Wn. 2d 208, 215, 219, 143 P.3d 571 (2006)
- In re Personal Restraint of Dyer, 143 Wn. 2d 384, 394, 20 P.3d 907 (2001)
- State v. Morgan, 163 Wn. App. 341, 352, 261 P.3d 167 (2011)
- Chickering v. Commissioner, 118 F.2d 254, 257-58 (1st Cir. 1941)

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