SUPREME COURT OF THE UNITED STATES

South Carolina v. Baker

485 U.S. 505 (1988) · No. No. 94, Orig. · Decided June 13, 1988

SUMMARY

The Supreme Court upheld Section 310(b)(1) of the Tax Equity and Fiscal Responsibility Act of 1982 against a Tenth Amendment challenge. The Court held that the provision's effective requirement that States issue registered bonds was a generally applicable regulation of state activity, not an unconstitutional commandeering of state regulatory machinery. The Court also overruled Pollock v. Farmers' Loan & Trust Co. to the extent it recognized constitutional immunity for interest earned on state bonds.

CASE DETAILS

COURT	Supreme Court of the United States
WRITING FOR THE COURT	Justice Brennan; Chief Justice Rehnquist; Justice Blackmun; Justice Marshall; Justice O'Connor; Justice Scalia; Justice Stevens; Justice White
JURISDICTION	Federal
DECIDED	June 13, 1988
DOCKET	No. 94, Orig.
DISPOSITION	approved
PROCEDURAL POSTURE	Original-jurisdiction action by South Carolina challenging the constitutionality of § 310(b)(1) of TEFRA, heard on exceptions to the Special Master's report.
STANDARD OF REVIEW	The Court reviewed exceptions to the Special Master's factual findings and legal conclusions in an original-jurisdiction proceeding.
PRECEDENTIAL VALUE	U.S. Supreme Court precedent
PARTIES	South Carolina, National Governors' Association v. Secretary of the Treasury of the United States

TOPICS

tenth amendment · federalism · tax · tax evasion · constitutional law

PRACTICE AREAS

constitutional law · federal taxation · federalism · state and local finance

QUESTIONS PRESENTED

1. Whether § 310(b)(1) of TEFRA violates the Tenth Amendment or constitutional principles of federalism by effectively requiring States to issue publicly offered long-term bonds in registered form.
2. Whether § 310(b)(1) violates the doctrine of intergovernmental tax immunity by subjecting interest on unregistered state bonds to federal income taxation.
3. Whether § 310(b)(1) is an impermissible regulatory tax because Congress allegedly lacked power to regulate the underlying state bond activity directly.

HOLDINGS

1. Section 310(b)(1) does not violate the Tenth Amendment. Congress may impose generally applicable federal regulations on state activities, and the fact that a State must take legislative or administrative action to comply with regulation of its own activity does not constitute unconstitutional commandeering.
2. A nondiscriminatory federal tax imposed on bondholders' interest from state bonds does not violate intergovernmental tax immunity when the tax is not imposed directly on a State and applies equally in substance to comparable federal, state, local, and private bonds.
3. Section 310(b)(1) is not unconstitutional merely because it serves a regulatory purpose, does not seek to raise revenue, or conditions a tax exemption on compliance with a requirement that Congress could have imposed directly.

KEY QUOTATIONS

> *"That a State wishing to engage in certain activity must take administrative and sometimes legislative action to comply with federal standards regulating that activity is a commonplace that presents no constitutional defect."* (515)

> *"We thus confirm that subsequent case law has overruled the holding in Pollock that state bond interest is immune from a nondiscriminatory federal tax."* (524-525)

> *"Because the federal imposition of a bond registration requirement on States does not violate the Tenth Amendment and because a nondiscriminatory federal tax on the interest earned on state bonds does not violate the intergovernmental tax immunity doctrine, we uphold the constitutionality of § 310(b)(1), overrule the exceptions to the Special Master's Report, and approve his recommendation to enter judgment for the defendant."* (527)

FACTUAL BACKGROUND

Section 310(b)(1) of TEFRA removed the federal income-tax exemption for interest on publicly offered long-term state and local bonds unless the bonds were issued in registered form. Before TEFRA, state and local governments commonly issued bearer bonds, but after the provision took effect no State issued a bearer bond.

The Special Master found that registration was effectively required and considered the resulting financial and administrative effects on the States.

PROCEDURAL HISTORY

The Supreme Court granted South Carolina leave to file an original complaint against the Secretary of the Treasury and appointed Samuel J. Roberts as Special Master. The National Governors' Association intervened. After hearings and receipt of evidence, the Special Master concluded that § 310(b)(1) was constitutional and recommended judgment for the defendant. South Carolina and the NGA filed exceptions to the Master's factual findings and legal conclusions.

DISPOSITION

approved

CASES CITED

- South Carolina v. Regan, 465 U.S. 367 (1984)
- Garcia v. San Antonio Metropolitan Transit Authority, 469 U.S. 528 (1985)
- FERC v. Mississippi, 456 U.S. 742 (1982)
- National League of Cities v. Usery, 426 U.S. 833 (1976)
- Pollock v. Farmers' Loan & Trust Co., 157 U.S. 429 (1895)
- Graves v. New York ex rel. O'Keefe, 306 U.S. 466 (1939)
- James v. Dravo Contracting Co., 302 U.S. 134 (1937)
- Helvering v. Gerhardt, 304 U.S. 405 (1938)
- Alabama v. King & Boozer, 314 U.S. 1 (1941)
- Memphis Bank & Trust Co. v. Garner, 459 U.S. 392 (1983)
- United States v. New Mexico, 455 U.S. 720 (1982)
- United States v. Mississippi Tax Commission, 421 U.S. 599 (1975)
- Minor v. United States, 396 U.S. 87 (1969)
- South Dakota v. Dole, 483 U.S. 203 (1987)