SUPREME COURT OF UTAH

MacFarlane v. Utah State Tax Commission, 2006 UT 18

134 P.3d 1116 (Utah 2006) · No. Nos. 20040956, 20030949, 20030887 · Decided April 8, 2006

SUMMARY

The Supreme Court of Utah considered whether Utah residents who were shareholders in S corporations could claim credits under Utah Code section 59-10-106 for corporate franchise taxes paid by those corporations to Texas and California. The court held that the statutory phrase "on income" includes taxes measured by or calculated according to income, regardless of whether they are labeled franchise or excise taxes. The court affirmed summary judgment for the taxpayers and reversed the Utah State Tax Commission's decisions.

CASE DETAILS

COURT	Supreme Court of Utah
WRITING FOR THE COURT	Chief Justice Durham; Associate Chief Justice Wilkins; Justice Durrant; Justice Parrish; Justice Nehring
JURISDICTION	Utah
DECIDED	April 8, 2006
DOCKET	Nos. 20040956, 20030949, 20030887
DISPOSITION	other
PROCEDURAL POSTURE	Consolidated appeal from judgments of the Fourth Judicial District Court and decisions of the Utah State Tax Commission concerning the denial of individual income-tax credits for corporate franchise taxes paid by S corporations to Texas and California.
STANDARD OF REVIEW	Statutory interpretation and conclusions of law are reviewed for correctness. The district court's conclusions of law on summary judgment and the Tax Commission's conclusions of law were reviewed under a correction-of-error standard.
PRECEDENTIAL VALUE	Published Utah Supreme Court opinion; precedential
PARTIES	Utah State Tax Commission v. James and Carol MacFarlane, Bernard and Verbena Diamond, Samuel and Sandra A. Hunter, Jane A. Marquardt, Robert L. and Annette Marquardt, Robert S. and Kim Marquardt, Barbara B. Baker, William and Julia L. Reagan

TOPICS

income tax · tax credits · pass-through taxation · statutory interpretation · appellate procedure

PRACTICE AREAS

state and local taxation · income taxation · administrative law · appellate procedure

QUESTIONS PRESENTED

1. Whether Utah Code section 59-10-106 permits shareholders of S corporations to claim credits against Utah individual income tax for their pro rata shares of franchise taxes paid by the corporations to other states when those taxes are measured by income.
2. Whether the rule strictly construing tax credits against the taxpayer precludes the claimed credits.

HOLDINGS

1. The phrase 'on income' in Utah Code section 59-10-106 includes taxes measured by or calculated according to income, even when those taxes are labeled franchise or excise taxes. Utah resident shareholders may therefore claim credits for their pro rata shares of the qualifying corporate franchise taxes paid to Texas and California.
2. Although tax-credit statutes may generally be strictly construed against taxpayers, that rule is a secondary interpretive consideration and cannot be applied to defeat clear statutory language or manifest legislative intent.

KEY QUOTATIONS

> *"What is dispositive is the effect the tax has on the taxpayer."* (¶ 17; 134 P.3d at 1120)

> *"We hold that the term "on income" in Utah Code section 59-10-106 includes taxes measured by or calculated according to income."* (¶ 20; 134 P.3d at 1121)

FACTUAL BACKGROUND

The appellee taxpayers were Utah residents and shareholders of Utah S corporations conducting business in California, Texas, or both. California and Texas imposed franchise taxes on the corporations, with the taxes calculated by reference to corporate income; because the corporations were treated as C corporations in those states, the taxes were imposed on the corporate entities but ultimately borne by the shareholders. The taxpayers claimed pro rata Utah individual income-tax credits under Utah Code section 59-10-106, but the Tax Commission disallowed the credits.

PROCEDURAL HISTORY

The Tax Commission denied the taxpayers' claimed credits under Utah Code section 59-10-106, concluding that franchise taxes measured by income were not taxes imposed 'on income.' The Fourth Judicial District Court granted summary judgment to the MTC Shareholders and the MacFarlanes. Barbara Baker and the Reagans appealed directly from the Commission's decisions, and the Commission appealed the district court judgments. The Utah Supreme Court consolidated the appeals.

DISPOSITION

other

CASES CITED

- State v. Schofield, 2002 UT 132, ¶ 6, 63 P.3d 667
- Dick Simon Trucking, Inc. v. Utah State Tax Commission, 2004 UT 11, ¶ 3, 84 P.3d 1197
- J. Pochynok Co., Inc. v. Smedsrud, 2005 UT 39, ¶ 15, 116 P.3d 353
- Carrier v. Salt Lake County, 2004 UT 98, ¶ 30, 104 P.3d 1208
- Complete Auto Transit, Inc. v. Brady, 430 U.S. 274, 279, 285 (1977)
- Spector Motor Service, Inc. v. O'Connor, 340 U.S. 602, 603-04 (1951)
- Roach v. Comptroller of the Treasury, 327 Md. 438, 610 A.2d 754, 759 (1992)
- J.M. & M.S. Browning Co. v. State Tax Commission, 107 Utah 457, 154 P.2d 993, 994 (1945)
- Chilivis v. International Business Machines Corp., 142 Ga. App. 160, 235 S.E.2d 626, 627 (1977)
- Aztar Indiana Gaming Corp. v. Department of State Revenue, 806 N.E.2d 381, 385 (Ind. Tax 2004)
- Pauley v. Virginia Department of Taxation, 55 Va. Cir. 215 (Va. Cir. Ct. 2001)
- Gray v. Franchise Tax Board, 235 Cal. App. 3d 36, 286 Cal. Rptr. 453, 455 (1991)
- In re Baker, 1990 N.Y. Tax LEXIS 715, at *13 (N.Y. Tax App. 1990)
- Tarrant v. Department of Taxes, 169 Vt. 189, 733 A.2d 733, 739, 741 (1999)
- Morton International, Inc. v. Auditing Division of the Utah State Tax Commission, 814 P.2d 581, 591 (Utah 1991)
- Canty v. Idaho State Tax Commission, 138 Idaho 178, 59 P.3d 983, 987 (2002)
- Manufab, Inc. v. Mississippi State Tax Commission, 808 So. 2d 947, 949 (Miss. 2002)
- Hermann v. Director of Revenue, 47 S.W.3d 362, 365 (Mo. 2001)
- Team Specialty Products, Inc. v. New Mexico Taxation & Revenue Department, 2005-NMCA-020, ¶ 9, 137 N.M. 50, 107 P.3d 4
- Arizona Department of Revenue v. Raby, 204 Ariz. 509, 65 P.3d 458, 460 (Ariz. Ct. App. 2003)
- State Department of Assessments and Taxation v. Belcher, 315 Md. 111, 553 A.2d 691, 695 (1989)
- Jensen v. Intermountain Health Care, Inc., 679 P.2d 903, 906 (Utah 1984)
- Brennan v. Director of Revenue, 937 S.W.2d 210, 211-12 (Mo. 1997)
- Bishop v. District of Columbia, 401 A.2d 955, 958 (D.C. 1979)
- Perez v. Department of Revenue & Taxation, 731 So. 2d 406 (La. Ct. App. 1999)