Bond Case Briefs

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Quinn v. State

Supreme Court of Washington, EN BANC - March 24, 2023 - P.3d - 2023 WL 2620080

Owners of capital assets brought action against State alleging that the state capital gains tax facially violated the uniformity and levy requirements of the State Constitution, the privileges and immunities clause of the State Constitution, and the dormant commerce clause.

After consolidation of cases and grant of motion to intervene, the Superior Court granted summary judgment for owners. Intervenors sought direct review, which was granted.

In a case of first impression, the Supreme Court held that:

- Capital gains tax was an excise tax and not a property tax on income;
- Capital gains tax did not violate the privileges and immunities clause; and
- Capital gains tax did not violate the dormant commerce clause.

State capital gains tax was an "excise tax" and not a "property tax" on income subject to the uniformity and levy limitations of the State Constitution; capital gains tax was tax on transactions involving capital assets and not a tax on the assets themselves or the income they generated.

State capital gains tax did not facially violate the privileges and immunities clause of the State Constitution; state residents did not have a fundamental right to enjoy the same tax exemptions enjoyed by all other state residents, and legislature's express purpose in enacting the capital gains tax was to help meet the state's paramount duty to amply fund public education without exacerbating existing inequities as between individuals by requiring the state's wealthiest to pay a greater share of their overall income in state taxes.

A taxpayer's in-state domicile provided a sufficient nexus between the state and capital gains derived from the sale or exchange of tangible property located out-of-state, as required for state capital gains tax to satisfy the dormant commerce clause; capital gains tax was levied on capital transactions and not on mere ownership of capital assets or gains, and a taxpayer's exercise of power to dispose of capital assets was exercised in state in which the taxpayer was domiciled.

A taxpayer's in-state domicile provided a sufficient nexus between the state and capital gains derived from the sale or exchange of intangible property, as required for state capital gains tax to satisfy the dormant commerce clause.

State capital gains tax was internally consistent, as needed to satisfy the fair apportionment requirement of the dormant commerce clause, where the allocations found in capital gains tax statute detailed when capital gains were attributed to state, and statute also included a tax credit to prevent any possible multiple taxation.

State capital gains tax was internally consistent, as needed to satisfy the fair apportionment requirement of the dormant commerce clause, even if another taxing jurisdiction could tax the capital transaction, where there was no showing of how the state’s capital gains tax would result in multiple taxation if all states adopted the same tax.

State capital gains tax was externally consistent, as needed to satisfy the fair apportionment requirement of the dormant commerce clause; State had a valid interest in taxing capital gains derived from sale or exchange of intangible property or personal property located out-of-state, the allocations found in capital gains tax statute detailed when capital gains were attributed to state, a statutory tax credit prevented any real risk of multiple taxation, and statute also permitted taxpayers to deduct from their state capital gains the amounts that the state was prohibited from taxing under the State and Federal Constitutions.

State capital gains tax did not facially discriminate against interstate commerce, and therefore it did not violate the dormant commerce clause; plain text of capital gains tax statute did not treat out-o--state individuals unfavorably, statute provided a method for allocating capital gains to state, and statute included a tax credit which removed any risk of actual multiple taxation.