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U.S. Supreme Court Decision on Individual Income Taxes Paid to Another Jurisdiction Could Mean Refunds

On May 18, 2015, the U.S. Supreme Court issued its long-awaited decision in Comptroller of the Treasury of Maryland v. Wynne, et ux., upholding a decision of the Maryland Court of Appeals.

By way of factual summary, Maryland imposes a state individual income tax on its residents and also administers a county income tax on behalf of Maryland's Counties. Maryland law, like the law of many States, provides a credit against the Maryland individual income tax for individual income taxes paid to other States, however, Maryland law does not provide a similar credit against the individual income tax imposed by Maryland Counties.

In the Wynne case, a Maryland resident with S Corporation income subject to tax in 36 States was allowed to credit income taxes paid to other States against the Maryland income tax, but was denied a credit against the income tax administered by Maryland on behalf of its Counties. The Supreme Court decided that this scheme of taxation violates the "Dormant" Commerce Clause of the U.S. Constitution because it could result in individuals engaged in interstate commerce paying a higher tax than individuals engaged in intra-state commerce and may subject such persons to multiple taxation, particularly, if other States had similar laws.

The Court's decision means that individuals may be able to file for income tax refunds if they have been denied a full credit for income taxes paid to other States, Counties or Cities. Individuals who pay income taxes in multiple jurisdictions should check with their tax advisors to determine whether a refund claim may be available. Durham Jones & Pinegar would be pleased to offer advice and assistance in such matters.

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