



TaxNewsFlash

United States



No. 2019-066
February 20, 2019

U.S. Supreme Court: State taxation, pensions of former law enforcement employees

The U.S. Supreme Court today unanimously held that West Virginia law that taxes the federal pension benefits of a retired U.S. Marshals Service employee, whereas the pension benefits of certain former state and local law enforcement employees were exempt from state taxation, violates the intergovernmental tax immunity doctrine under 4 U.S.C. section 111.

The case is: *Dawson v. Steager*, No. 17-419 (S. Ct. February 20, 2019). Read the [Supreme Court's opinion](#) [PDF 95 KB]

The taxpayer retired from the U. S. Marshals Service, and West Virginia (his home state) taxed his federal pension benefits as it does all former federal employees. However, the pension benefits of certain former state and local law enforcement employees were exempt from state taxation. The taxpayer alleged that the state statute violated the intergovernmental tax immunity doctrine under 4 U.S.C. section 111 (the provision under which the United States consents to state taxation of the pay or compensation of federal employees, but only if the state tax does not discriminate on the basis of the source of the pay or compensation).

The state trial court found no significant differences between the taxpayer's job duties as a federal marshal and those of the state and local law enforcement officers exempted from taxation and held that the state statute violated the anti-discrimination provision. The West Virginia Supreme Court of Appeals reversed, finding that the state tax exemption applies only to a narrow class of state retirees and was never intended to discriminate against former federal marshals.

Today, the U.S. Supreme Court reversed. In remanding the case back to the lower court, the Supreme Court found that the West Virginia statute unlawfully discriminates against the taxpayer contrary to the provisions under 4 U.S.C. section 111 and that a state violates section 111 when it treats retired state employees more favorably than retired federal employees and no "significant differences between the two classes" justify the differential treatment.

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