# SUPREME COURT OF THE UNITED STATES

Syllabus

## UNITED STATES *v.* CARLTON

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

No. 92–1941. Argued February 28, 1994—Decided June 13, 1994

As adopted in October 1986, 26 U. S. C. §2057 granted an estate tax deduction for half the proceeds of ``any sale of employer securities by the executor of an estate'' to ``an employee stock ownership plan'' (ESOP). In December 1986, respondent Carlton, acting as an executor, purchased shares in a corporation, sold them to that company's ESOP at a loss, and claimed a large §2057 deduction on his estate tax return. In December 1987, §2057 was amended to provide that, to qualify for the deduction, the securities sold to an ESOP must have been ``directly owned'' by the decedent ``immediately before death.'' Because the amendment applied retroactively, as if it were incorporated in the original 1986 provision, the Internal Revenue Service (IRS) disallowed Carlton's §2057 deduction. The District Court entered summary judgment against him in his ensuing refund action, rejecting his contention that the amendment's retroactive application to his transactions violated the Due Process Clause of the Fifth Amendment. The Court of Appeals reversed, holding that such application was rendered unduly harsh and oppressive, and therefore unconstitutional, by Carlton's lack of notice that §2057 would be retroactively amended and by his reasonable reliance to his detriment on pre-amendment law.

*Held:* The 1987 amendment's retroactive application to Carlton's 1986 transactions does not violate due process. Under the applicable standard, a tax statute's retroactive application must be supported by a legitimate legislative purpose furthered by rational means. See, *e.g., Pension Benefit Guaranty Corp.* v. *R. A. Gray & Co.,* 467 U. S. 717, 729–730. Here, Congress' purpose in enacting the 1987 amendment was neither illegitimate nor arbitrary. Section 2057 was originally intended to create an incentive for stockholders to sell their companies to their employees, but the absence of a decedent-stock-ownership requirement resulted in the deduction's broad availability to virtually any estate, at an estimated loss to the Government of up to $7 billion in anticipated revenues. Thus, Congress undoubtedly intended the amendment to correct what it reasonably viewed as a mistake in the original provision. There is no plausible contention that it acted with an improper motive, and its decision to prevent the unanticipated revenue loss by denying the deduction to those who made purely tax-motivated stock transfers was not unreasonable. Moreover, the amendment's retroactive application is rationally related to its legitimate purpose, since Congress acted promptly in proposing the amendment within a few months of §2057's original enactment and established a modest retroactivity period that extended only slightly longer than one year. The Court of Appeals' exclusive focus on the taxpayer's notice and reliance held §2057 to an unduly strict standard. Pp. 4–9.

972 F. 2d 1051, reversed.

BLACKMUN, J., delivered the opinion of the Court, in which REHNQUIST, C. J., and STEVENS, KENNEDY, SOUTER, and GINSBURG, JJ., joined. O'CONNOR, J., filed an opinion concurring in the judgment. SCALIA, J., filed an opinion concurring in the judgment, in which THOMAS, J., joined.