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5 Key Takeaways | Equity and State Taxes: Equitable Doctrines and Their State Tax Application

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Chicago SALT Partner **David Hughes** recently moderated a panel on "**Equity and State Taxes: Equitable Doctrines and Their State Tax Application**" at the American Bar Association 2026 Midyear Tax Meeting.

Here are 5 Key Takeaways from his presentation:

1. The Role of Equity in State Taxation
Equity empowers courts to achieve fair outcomes when rigid application of tax laws would result in injustice. Courts can invoke equitable doctrines—traditionally applied outside tax law—to provide relief in extraordinary o exceptional state tax cases, emphasizing fairness over strict application of statutory law.

2. Key Equitable Doctrines in State Tax Cases
A range of equitable doctrines—including laches, equitable estoppel, judicial estoppel, equitable recoupment, offset, correlative adjustment, and the square corners doctrine—are recognized as mechanisms for taxpayers to challenge state action and defend against assessments. Each doctrine addresses specific forms of governmental delay, inconsistency, or unfair conduct in the administration of state taxes.

3. Laches and Equitable Estoppel: Defenses Based on State Conduct
The laches doctrine protects taxpayers where states delay action to their detriment, while equitable estoppel prevents states from benefitting when taxpayers have reasonably relied on misleading state conduct or representations. Courts have applied these doctrines to strike assessments or abate penalties and interest, emphasizing the need for diligence and fairness by tax authorities.

4. Judicial Estoppel and Recoupment: Ensuring Consistency and Fairness
Judicial estoppel bars the state from adopting inconsistent positions in legal proceedings to the taxpayer's detriment, maintaining the integrity of the judicial process. Equitable recoupment, meanwhile, allows taxpayers to offset liabilities in open periods with overpayments from closed periods arising from the same transaction, preventing unjust enrichment by the state through inconsistent treatment across tax periods.

5. The Square Corners Doctrine: Mandating Governmental Fairness
The square corners doctrine requires the state to act with integrity and fairness, avoiding procedural tactics or errors that would unfairly prejudice taxpayers. Courts have invoked this doctrine to provide equitable relief where taxpayers were misled or disadvantaged by state mistakes, reinforcing the principle that fairness is a two-way street in taxpayer-government interactions.

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