Mayo and the Future of Tax Regulations

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Steve R. Johnson, Mayo and the Future of Tax Regulations, 130 TAX NOTES 1547 (2011), Available at: https://ir.law.fsu.edu/articles/273

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Mayo and the Future of Tax Regulations

By Steve R. Johnson

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The years 2009 to 2011 have been an active period for taxpayer challenges to regulations. This has resulted in many important judicial opinions. Johnson believes the most important is the Supreme Court's January 11 Mayo decision. Mayo makes it clear that Chevron provides the standard when tax regulations are challenged; it rejects the old view that general authority regulations receive less deference than specific authority regulations; and it confirms that Treasury and the IRS are fully subject to the usual rules of administrative law. However, it does not fundamentally change the balance between taxpayers and the government. This report examines these and other aspects of Mayo and suggests possible future battlegrounds for challenges to tax regulations.

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Of the heady early days of the French Revolution, Wordsworth wrote: “Bliss it was in that dawn to be alive. But to be young was very heaven.” Those of us interested in the intersection of tax law and administrative law may be excused if we feel similar exhilaration about the time in which we live.

In terms of the intersection, this is the most exciting moment in the tax history of the United States. Recent cases have tested — and cases still in progress continue to test — the validity of several Treasury regulations:


2. Section 6015 prescribes a two-year limitations period for claims for spousal relief under section 6015(b) and (c), but it is silent as to a limitation period for claims for spousal relief under section 6015(f). By regulation, Treasury established a two-year limitations period for section 6015(f).\footnote{Reg. section 1.6015-f(1).}

3. Section 6501(e) creates a six-year limitations period for income tax assessments when a return omits income exceeding 25 percent of reported income. The IRS maintains that this extended period also applies when overstatements of basis lead to the requisite understatement of income. Treasury promulgated a

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2 Reg. section 1.6015-f(1).
4 Lantz v. Commissioner, 132 T.C. 131 (2009), Doc 2009-7979, 2009 TNT 65-8, rev’d, 607 F.3d 379 (7th Cir. 2010), Doc 2010-12604, 2010 TNT 110-7. For discussion of this case, see Bryan T. Camp, "Interpreting Statutory Silence," Tax Notes, Aug. 2, 2010, p. 901, Doc 2010-13289, or 2010 TNT 148-6 (arguing that the Tax Court was right in Lantz and the Seventh Circuit was wrong).
5 Hall v. Commissioner, 135 T.C. No. 19 (Sept. 22, 2010), Doc 2010-20733, 2010 TNT 184-11, on appeal, No. 10-2628 (6th Cir.); Buckner v. Commissioner, No. 12153-09 (T.C. 2010) (unreported order), on appeal, No. 10-2056 (6th Cir). Hall is in the briefing stage. Buckner has been fully briefed and is awaiting oral argument.
temporal regulation, now replaced by a permanent regulation, ensnaring the IRS’s interpretation.6 The temporary regulation was invalidated by the Tax Court, whose decision is now on appeal to the D.C. Circuit, with oral argument scheduled for April 5.7 Four other circuit courts have already weighed in on the issue. On January 26 the Seventh Circuit held for the IRS on the issue (although it did so as a matter of statutory construction, with only dicta as to the validity of the regulation).8 On February 7 and February 9 the Fourth Circuit and the Fifth Circuit, respectively, held against the IRS, refusing to accord Chevron deference because the section was seen as unambiguous.9 On March 11 the Federal Circuit held for the IRS, according the regulation deference under Chevron.10 The issue remains pending in the Tenth Circuit.11

4. The section 263 Uniform Capitalization regime is implemented in part by a regulation setting forth the so called “associated-property” rule.12 In a case of first impression, the Court of Federal Claims considered the validity of the regulation. The court found discrepancies in the regulation and saw it as stretching the boundaries of reasonableness. Nonetheless, on February 25, the court reluctantly upheld the regulation.13

This report is about Mayo. As a Supreme Court decision, it is the most authoritative of the recent cases, and it has been cited in arguments in other recent cases challenging tax regulations. When relevant, this report also addresses these other cases.14

Mayo is a helpful case in that it clarifies the analytical process to be used when taxpayers challenge the validity of Treasury regulations. In general, Mayo confirms directions in which the administrative rules of tax have been moving, and it clears out much of the accreted debris of outdated thinking.

Part I describes the facts of Mayo and the Supreme Court’s decision. Part II explains the ways in which Mayo clarifies the law governing challenges to the validity of tax regulations. Part III seeks to allay the fear that Mayo fundamentally shifts the balance in a pro-government direction in cases in which Treasury regulations are challenged. Finally, Part IV discusses some likely post-Mayo battlegrounds.

I. Mayo Facts and Decision

Under FICA, both employers and employees are subject to tax, based on wages.15 Excluded from taxation, however, are amounts paid for “service performed in the employ of . . . a school, college, or university . . . if such service is performed by a student who is enrolled and regularly attending classes at such school, college, or university.”16

The Mayo Foundation and the University of Minnesota offer residency programs that train doctors. The programs are multiyear and emphasize hands-on experience. Residents often spend 50 to 80 hours a week examining patients, making diagnoses, prescribing medication, recommending plans of care, and performing procedures. Residents are supervised. They are paid between $41,000 and $56,000 annually and are provided medical insurance, malpractice insurance, and paid vacation time. In addition to learning through service, Mayo residents participate in structured education. They are assigned material to read, attend lectures and conferences, and take examinations.

The issue in Mayo was whether medical residents fit within the FICA exception for students. Treasury regulations promulgated in 1951 provide that the exception applies to students who work for their schools “as an incident to and for the purpose of pursuing a course of study.”17 Until 2005, the “incident to” determination was made case by case.18


1Reg. section 310.6501(c)-1T(a)(1)(iii), replaced by T.D. 9511, Doc 2010-26662, 2010 TNT 240-11, accompanying reg. sections 301.6229(c)(2)-1 and 301.6501(e)-1.
8The cases are not just doctrinally significant. They also have significant revenue implications for taxpayers and the federal fisc. The government estimates that Social Security taxes on medical residents can be as much as $200 million per year and that had it lost Mayo, it would have had to pay out more than $1 billion in refunds of overpayments. See, e.g., Inside (Footnote continued in next column.)
In late December 2004, Treasury amended the regulation to provide that the exception applies only when the educational aspect predominates over the service aspect.19 The amended regulation categorically provides that services as a full-time employee (including scheduled work of more than 40 hours a week) are not within the exception.20

The Mayo Foundation and the University of Minnesota challenged the validity of the amended regulation. The district court agreed with the taxpayers,21 in part because of its reading of the Supreme Court's pre-Chevron, tax-specific National Muffler decision.22 The circuit court reversed, concluding that the nontax decision23 provided the governing standard and that, under Chevron, the amended regulation was valid.24

In an opinion by Chief Justice John G. Roberts Jr., the Supreme Court unanimously affirmed the circuit court. The Court held that (1) Chevron, not National Muffler, controls25; (2) section 3121(b)(10) is silent or ambiguous as to the definition of the student exception26; and (3) the amended regulation reasonably interprets section 3121(b)(10).27

II. What Mayo Does

Taxpayers have been challenging the validity of tax regulations for nearly as long as there have been tax regulations.28 As a result, many cases specific to tax existed before Chevron was decided.29 The pre-Chevron cases had uncertainties; Chevron itself (as modified by subsequent cases) has been far from a model of clarity30; and the relationship of the two lines of authority was unsettled. The intersection of these three sets of ambiguities created a doctrinal mess, for which the Supreme Court itself bore a considerable share of the blame.31 For example, in post-Chevron tax cases, the Court sometimes cited National Muffler and other times cited Chevron without explanation of why one case and not the other was being cited.32

Mayo improves the situation. Five aspects of the case are noteworthy.

First, it was generally agreed long before Mayo that Chevron provides the standard when a taxpayer challenges a specific authority regulation issued under a delegation in some section other than section 7805(a).33 However, courts34 and commentators35 disagreed about whether Chevron also governed challenges to the validity of regulations promulgated under section 7805(a)'s general delegation to Treasury of authority to "prescribe all needful rules and regulations for the enforcement" of the code.

That debate is now over. Mayo makes it clear that Chevron provides the controlling standard for general authority regulations too,36 particularly when the regulation has gone through the notice and comment procedures of the Administrative Procedure Act (APA),37 as the regulation at issue in Mayo had.

Second, Mayo undercuts the distinction that traditionally has been drawn between specific authority and general authority regulations. Some courts — including the Supreme Court — and some commentators used to say that general authority regulations receive less deference than specific authority Chevron deference have produced so much confusion in the lower courts." Coeur Alaska, 129 S. Ct. at 2479-2480 (Scalia, J., concurring).


35Mayo, 131 S. Ct. at 714.
regulations. Others doubted the usefulness or the validity of that incantation.

Previous cases had wounded the traditional distinction. Mayo deals it a mortal blow. The Court noted that "the administrative landscape has changed significantly" since the old cases expressing the traditional view, and it remarked: "Our inquiry [as to deference] does not turn on whether Congress's delegation of authority was general or specific."

Third, Mayo continues the debate about interpretive method at Chevron's step one. What sources may a judge legitimately consult in ascertaining whether the statute is ambiguous? The answer depends on which judge is writing the opinion. When a textualist judge does so, as Justice Clarence Thomas did in Brand X, the focus will be limited to the language and structure of the statute (perhaps with a constructional canon or two). When a purposivist judge writes the opinion, as Justice John Paul Stevens did in Chevron itself, a wider angle of vision will be used, including legislative history and other indicators of congressional intent.

Chief Justice Roberts is a textualist, so unsurprisingly the step one analysis in Mayo is constrained in scope, with principal attention paid to the language of the statute. Although this is interesting, it could hardly be called profoundly significant. The next time a purposivist judge writes a step one opinion, he is unlikely to feel constrained by Chief Justice Roberts's approach.

Fourth, Mayo's approach to the step two inquiry also is interesting. What are the criteria by which one decides whether the agency's interpretation is reasonable? It might be argued that the only acceptable measures of reasonableness are those that bear on accuracy of meaning. For example, the relevant ambiguity in Mayo involves the definition of student under section 3121(b)(10). It could be maintained that only indicia bearing on the characteristics of students versus the characteristics of employees should be taken into account.

Mayo, however, was not so limited. One consideration that led the Court to conclude that the amended regulation is reasonable is that compared with a facts and circumstances inquiry, a categorical approach improves administrability, avoiding "the wasteful litigation and continuing uncertainty that would inevitably accompany any purely case-by-case approach."

Administrability, of course, is a process value, not an accuracy indicator. Indeed, inherent in administrability as an operative value is that some loss of classificatory precision is acceptable to enhance predictability, preserve resources, and the like. Thus, the teaching of Mayo is that the step two reasonableness inquiry is not limited to accuracy-of-meaning considerations but includes process values as well.

Finally, the ever-growing complexity of American law requires professionals to specialize. That survival necessity imposes costs, however: a tendency to tunnel vision and ignorance or rejection of currents moving the broader law. Tax exceptionalism (carving tax out of rules of general application

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40 E.g., Boeing Co. v. United States, 537 U.S. 437, 448 (2003), Doc 2003-5648, 2003 TNT 43-7 (noting that although the tax regulation at issue was general authority in nature, "we must still treat the regulation with deference").
41 Mayo, 131 S. Ct. at 713.
42 Id. at 713-714.
43 National Cable & Telecommunications Ass'n v. Brand X Internet Services, 545 U.S. 967, 989 (2005) (conducting the step one inquiry by reference to the statute's "plain terms").
44 Chevron, 467 U.S. at 843 n.9 (referring to use of "traditional tools of statutory construction" to ascertain the "intention" of Congress).
45 For an illustration of the clash, compare Justice Ruth Bader Ginsburg's opinion for the Court in Regions Hospital v. Shalala, 522 U.S. 448 (1998), with Justice Scalia's dissent in that case.
46 See Mayo, 131 S. Ct. at 711.
without the warrant of compelling contextual differences) and tax myopia are understandable but ultimately undesirable, as I31 and others have argued.52

Mayo is powerful ammunition against tax exceptionalism. In concluding that the law had evolved past National Muffler and the traditional "general authority versus specific authority" cases, Mayo cited five cases— all of them nontax cases.53 This pattern of citation dispels the idea that tax is an island untouched by the waves lapping on other administrative shores. Indeed, Mayo made the point explicitly. It stated:

Mayo has not advanced any justification for applying a less deferential standard of review to Treasury Department regulations than we apply to the rules of any other agency. In the absence of such justification, we are not inclined to carve out an approach to administrative review good for tax law only. To the contrary, we have expressly recognized the importance of maintaining a uniform approach to judicial review of administrative action.54

III. What Mayo Doesn’t Do

What Mayo does is to clarify the law, as shown in Part II above. What Mayo doesn’t do is fundamentally alter the balance of power between taxpayers and the government in cases in which the validity of Treasury regulations is challenged. Any fear on the part of taxpayers that tax regulations will now be effectively immune from challenge would be exaggeration on the order of Chicken Little’s "the sky is falling!"

I say this for three reasons. First, holding that Chevron applies to challenges to general authority tax regulations isn’t revolutionary — the clear trend of the law was already in that direction. In his dissent in the Tax Court’s 2006 Swallows Holding decision, Judge Mark V. Holmes tabulated the circuits. He found that six circuits applied Chevron in cases involving general authority regulations, that five circuits rejected Chevron in that context, and that two circuits had no clear position on the issue.55 Since then, two circuits (the Third Circuit in Swallows Holding and the Eighth Circuit in Mayo) moved from the National Muffler camp into the Chevron camp, and one circuit (the Second Circuit) that previously took no side in the controversy seemed to be edging toward Chevron.56 Moreover, the Tax Court—which had been a principal holdout against the trend— hedged its bets by stating in several cases that it need not choose between National Muffler and Chevron to decide the case at hand.57 The Tax Court also applied Chevron in cases involving general authority regulations when compelled to do so by the Golsen rule.58 In short, Mayo merely confirmed where the law was headed in any event.

Second, that a case is analyzed under Chevron is far from a guarantee that the agency will prevail. Chevron is usually considered a deferential standard favorable to the agency.59 However, that need not be the case. When a judge wants to invalidate an agency position, the usually preferred approach is to declare that the statute is unambiguous — and adverse to the agency’s view.60 Less frequently, but still often enough that the possibility can’t be ignored, judges accept that the statute is ambiguous but find the agency’s interpretation to be unreasonable.61

54See Mayo, 131 S. Ct. at 713-714 (citing Mead; Chevron; Brand X; Sullivan v. Eberhart, 494 U.S. 83 (1990); and Long Island Care at Home Ltd. v. Coke, 551 U.S. 158 (2007)).
55Mayo, 131 S. Ct. at 713 (punctuation omitted). In support of this proposition, the Court quoted one nontax case, Dickinson v. Zurko, 527 U.S. 150, 154 (1999), and cited another nontax case, Skinner v. Mid-America Pipeline Co., 490 U.S. 212 (1989).
COMMENTARY / SPECIAL REPORT

Perhaps America's greatest contribution to philosophy is pragmatism. Despite the shift from the common law to statutes and regulations as the principal instruments of lawmaking, the single most important word in the Anglo-American legal tradition remains "reasonableness." Judges steeped in the tradition will usually find doctrinally palatable ways to uphold regulations they find reasonable and to strike down regulations they find unreasonable.62

There is ample play in Chevron's doctrinal joints to allow invalidation of overreaching tax regulations. Mayo does not change that.

Third, correctly understood, National Muffler was a weak reed for taxpayers to rely on. Chief Justice Roberts accepted that National Muffler is a less deferential standard than Chevron.63 In this, he was buying a notion that has been peddled in recent years by lawyers and judges looking for ways to justify invalidating particular regulations. However, both the chief justice and the purveyors of this notion are wrong. Properly understood, National Muffler is a deferential case.

I make here as to Mayo an argument similar to that I made in criticizing the Tax Court's (later reversed) Swallows Holding decision.64 The part of National Muffler that some have latched onto is its listing of six considerations:

A regulation may have particular force if [1] it is a substantially contemporaneous construction of the statute by those presumed to have been aware of congressional intent. If the regulation dates from a later period, [2] the manner in which it evolved merits inquiry. Other relevant considerations are [3] the length of time the regulation has been in effect, [4] the reliance placed on it, [5] the consistency of the Commissioner's interpretation, and [6] the degree of scrutiny Congress has devoted to the regulation during subsequent reenactments of the statute.65

What the Mayo taxpayers (and other taxpayers) said was: "Aha! One or several of those six considerations is absent as to the regulation here at issue. Therefore, National Muffler dictates that this regulation receive little or no deference." Mayo rejected this argument. The Court disposed of several of the above considerations as arguments against the regulation:

• "We have repeatedly held that agency inconsistency is not a basis for declining to analyze the agency's interpretation under the Chevron framework."66
• "We have instructed that neither the antiquity nor the contemporaneity with a statute is a condition of a regulation's validity."67
• "We have found it immaterial to our analysis that a regulation was prompted by litigation."68

The type of argument used by the Mayo taxpayers ignores context and distorts National Muffler. I offer three points in that regard. First, National Muffler was not a solitary event. It was one of a line of pre-Chevron, tax-specific cases, and that line was deferential in nature.69

Second, the spirit of National Muffler itself was deferential. In the opinion in that case, the six considerations were bracketed by deferential language. They are preceded by the Court's acknowledgement that Congress delegated to Treasury, not to the courts, the authority to prescribe needful rules and that Treasury regulations should be upheld if they implement the statute "in some reasonable manner."70 The considerations are succeeded by the Court's injunction: "The choice among reasonable interpretations is for the Commissioner, not the courts."71 So bracketed, it would be myopic to see the six National Muffler factors as hostile to regulatory flexibility.

63 Mayo, 131 S. Ct. at 712 (punctuation omitted) (quoting Smiley v. Citibank (South Dakota) N.A., 517 U.S. 735, 740 (1996)). The regulation at issue in Chevron was not contemporaneous with the statute under which it was promulgated.
64 Mayo, 131 S. Ct. at 712 (punctuation omitted) (quoting Smiley, 517 U.S. at 741, and citing United Dominion Industries Inc. v. United States, 532 U.S. 822, 838 (2001)).
66 Mayo, 131 S. Ct. at 712 (punctuation omitted) (quoting Mayo, 440 U.S. at 476-477 (citing many cases).
67 Mayo, 440 U.S. at 476-477 (numbers added).
Third, it is worth remembering what actually happened in National Muffler. The Court upheld the regulation being challenged in that case. Moreover, it upheld the regulation even though it lacked contemporaneity, one of the six listed considerations.72

In sum, the Mayo taxpayers attempted to turn National Muffler on its head. National Muffler was a deferential case in a deferential line of cases. In that light, the six considerations should be viewed as shields to protect tax regulations, not swords with which to attack them. That is, National Muffler should be read as saying that when one or more of the six considerations are present, the regulation is entitled to even more than usual deference—not that when one or more are absent, the regulation is due less deference. The six are plus factors, not negative factors.

This reading of National Muffler is supported by the deferential context of the case. It also is supported by the language the Court used to introduce the six considerations: "A regulation may have particular force if..." That is positive language, not negative language.

The positive view of the six National Muffler considerations also is supported by their derivation. The six were not inventions. Justice Harry A. Blackmun, writing for the Court, offered them as a distillation of previous cases of the pre-Chevron, tax-specific line. Following the distillation, Justice Blackmun cited74 two cases of the line: South Texas Lumber74 and Winmill.75 Both of these cases were deferential in nature, both upheld the regulations being challenged, and both used considerations among the six to reach that result.76

In seeing the six considerations as positive, not negative, factors, I read what the Court did in National Muffler as similar to what it did in Dixon, another pre-Chevron tax-specific case.77 In Dixon, the taxpayer contended that the IRS abused its discretion when it gave retroactive effect to its withdrawal of an acquiescence to a prior case. In part, the taxpayer relied on Automobile Club of Michigan, in which the Court had upheld another retroactive IRS action.78 The taxpayer argued that considerations mentioned in Automobile Club were not present in Dixon, and therefore Dixon should be decided adversely to the IRS. The Supreme Court rejected that argument:

Although we mentioned certain facts in support of our conclusion in Automobile Club that there had not been an abuse of discretion in that case, it does not follow that the absence of one or more of these facts in another case wherein a ruling or regulation is applied retroactively establishes an abuse of discretion.79

The considerations mentioned in National Muffler should be understood as positive factors, not negative factors, just as Dixon understood that the considerations mentioned in Automobile Club were positive, not negative, factors. The attempt by the Mayo taxpayers to apply the National Muffler considerations negatively was a misuse of National Muffler.

In this respect, Chief Justice Roberts’s opinion for the Mayo Court threw the baby out with the bath water. The misuse of National Muffler by taxpayers (and by some judges, such as the Tax Court majority in Swallows Holding80) had to be stopped, and Mayo accomplished that end. The better way to have stopped it, however, would have been to explain that National Muffler is actually a deferential case, not to have accepted that National Muffler is non-deferential and then suggest that it is no longer good law.

Put another way, the destination reached was good but the choice of roads was not. One may hope that future cases will rehabilitate National Muffler based on a better understanding of it.

To summarize Part III: (1) the clear trend before Mayo was to recognize that Chevron applies to general authority tax regulations (at least those that have gone through the APA notice and comment process); (2) application of Chevron does not guarantee that a challenged regulation will be upheld; and (3) properly understood, National Muffler was not a pro-taxpayer standard, so its denigration by Mayo was a small loss to taxpayers.

By emphasizing Chevron, Mayo changes the vocabulary in which taxpayer challenges to tax regulation must be couched. Mayo does not, however, fundamentally alter the litigating balance between taxpayers and the government.

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72 Id. at 485.
73 Id. at 477.
75 Winmill, 315 U.S. at 83.
76 Similarly, courts deciding deference questions in non-tax contexts often have treated National Muffler-like considerations as positive factors. E.g., Coeur Alaska, 129 S. Ct. at 2479 (Scalia, J., concurring) (using the consistency of agency practice as a positive factor in upholding the agency’s position in an environmental law case).
78 Id. at 486.
79 Id. at 477.
81 Winmill, 315 U.S. at 83.
82 Id. at 477.
83 Id. at 486.
84 See Swallows Holding, 126 T.C. at 137-138.
IV. Future Battlegrounds

Questions about the appropriate standards to apply to challenges to the validity of Treasury regulations existed long before Mayo, and although Mayo answers some questions, other questions will continue and indeed might be brought more to the fore as a result of Mayo. Five such topics are addressed below: (1) regulations promulgated without notice and comment, (2) textsually nuanced delegations, (3) explanation of regulatory choices, (4) Chevron and sub-regulation authorities, and (5) the future of Chevron.

A. Regulations Without Notice and Comment

Post-Chevron cases make it clear that Chevron does not apply to all cases in which agency positions are challenged. In concluding that the regulation at issue is Chevron-qualified, Mayo noted that the regulation had gone through the notice and comment process, which has often been identified by the Court as an important factor as to whether Chevron applies.

Treasury usually submits regulations for notice and comment, and when it doesn’t, one or another of the APA exceptions sometimes applies. But not always. There are times when Treasury promulgates regulations without notice and comment even when no statutory exception applies.

Mayo does not cover this situation, and the stakes the situation raises are higher than merely which of several standards of deference may apply — failure to follow the APA when required means that the regulation is invalid.

Some prior cases acknowledged awareness of the issue but did not resolve it. Intermountain, recently decided by the Tax Court and on appeal to the D.C. Circuit, presents the issue via the concurring opinion of judges James S. Halpern and Holmes, which found the regulation invalid for failure to follow the notice and comment requirements. I have written in support of the Halpern-Holmes position, and future cases are likely to pose this issue as well. The validity of regulations promulgated outside the APA will be a post-Mayo battleground.

B. Textually Nuanced Delegations

When an old tree falls in a forest, sunlight penetrates to nurture new growth. Mayo disposed of the traditional notion that general authority regulations receive less deference than specific authority regulations. What I propose takes place set out by Congress in the statute — whether specific or general — under which the regulation at issue was promulgated.

As I described in some detail in a previous report and will develop in greater detail in a future one, Congress frames its delegations to Treasury in very different ways in different sections of the code. Some sections authorize Treasury only to fill interstices; others allow Treasury to write new, major rules; and yet others permit Treasury to suspend or alter substantive rules set out in the statute itself.

Under the maya of the now-discarded traditional notion, courts in the past too often focused on whether the regulation was general authority or specific authority in nature, to the neglect of the particular language of the delegation at issue in the nonbinding administrative position should be seen as persuasive. Strictly speaking, “deference” should pertain only to the second of these contexts, but it has been applied to both.

Intermountain, 134 T.C. at 222-223.


Recently, the Seventh Circuit addressed the controversy involved in Intermountain. The Seventh Circuit held for the IRS on statutory grounds. That court offered its view that the regulation at issue is valid. However, its remarks in this regard were dicta, and the court did not address the APA issue. Beard, 2011 WL 222249 at *7.

Johnson, supra note 51, at 850-852.

Intermountain, 134 T.C. at 222-223.

Johnson, supra note 51, at 850-852.


An unfortunate aspect of Chevron and subsequent cases is sloppy use of the term “deference.” Chevron issues can arise in two very different contexts: (1) whether a purportedly binding regulation makes valid, enforceable law, or (2) whether a (Footnote continued in next column.)
case. *Mayo* clears the way for more textually nuanced interpretation of delegations for tax regulations.

Indeed, *Mayo* instructs that “the ultimate question is whether Congress would have intended, and expected, courts to treat the regulation as within, or outside, its delegation to the agency of gap-filling authority.”96 A prime source through which to determine whether that intention exists is the language of the statute containing the delegation.97 I hope post-*Mayo* cases will more fully explore textually nuanced interpretation of delegations for tax regulations.

C. Explanation of Regulatory Choices

As maintained in Part II, *Mayo* makes untenable the parochial notion that tax law stands apart from administrative law generally. The numerous doctrines of administrative law are fair game in contests about the validity of tax regulations.

A recent case, *Mannella*,98 raises one of those doctrines: the obligation of an agency to explain the choices it makes in constructing binding rules. Some previous tax cases had noted, but usually not resolved, those issues.99 The appearance of the issue in *Mannella* may prompt taxpayers’ counsel to raise it more often in future cases — especially because the distorted *National Muffler* argument is no longer available.100

*Mannella* is one of the cases testing the validity of the Treasury regulation imposing a time limit on claims for relief under section 6015(f). Reversing the Tax Court, the Third Circuit in *Mannella* upheld the validity of the regulation. In a dissent, Judge Thomas L. Ambro said that he would have held the regulation invalid because, in promulgating it, Treasury had “not advanced any reasoning for its decision to impose [the] limitations period on taxpayers seeking relief under subsection (f), leaving us no basis to conduct the analysis mandated by Chevron Step Two.”101

Judge Ambro invoked the Supreme Court’s decision in *State Farm*, an important nontax administrative law case.102 However, these are deep waters doctrinally, historically, and as a matter of policy. Doctrinally, *State Farm* is part of the broader topic of “hard look” review of agency decisions. Both the hard-look doctrine in general and the explanation requirement in particular have been subject to varying degrees of rigor in judicial application. *State Farm* exemplifies a strong form of the rules, but other decisions have been looser in approach.103

Historically, *State Farm* has been refined by several subsequent decisions, including the Supreme Court’s 2009 *Fox* decision.104 The government thinks that one of those decisions — the Supreme Court’s 2002 *Verizon* decision105 — vitiates the “failure to explain” argument in the section 6015 context. In a brief filed on January 26 in a pending Sixth Circuit case, the Department of Justice argued that *State Farm* applies only when an agency is changing its course, not when it is “taking a position in the first instance.” Thus, in DOJ’s view, “Judge Ambro’s criticism is .... completely misconceived.”106

I doubt that *Verizon* is the stake through the heart of Judge Ambro’s contention. The *Verizon* Court was discussing *State Farm* in connection with whether the agency’s choice is rationally connected to the purpose of the statute, which is different from whether the agency must explain why it made the choices it did.107 Moreover, although *State Farm* did entail an agency change of position, many other explanation and hard-look cases involved initial agency positions, not changed positions.108 Thus, I think the government will have to formulate a better response to the “failure to explain” argument.

As a matter of policy, hard-look review has been very controversial.109 One aspect of the debate is the

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96 *Mayo*, 131 S. Ct. at 714 (punctuation omitted) (quoting *Long Island Care*, 551 U.S. at 173).


98 *Mannella*, 631 F.3d 115, was decided by the Third Circuit on January 19, 2011 — eight days after *Mayo*.


101 *Mannella*, 631 F.3d at 127.


“ossification” question: whether hard-looking review, or the specter of it, makes issuing regulations more time consuming and expensive, perhaps even forestalling desirable regulations entirely. Scholars are divided about these and other putative benefits and burdens of hard-looking review.111

That debate could, of course, occur in the tax context. Tax regulations entail numerous choices among numerous alternatives. Judge Ambro’s Mannella dissent did not define the scope of the explanation requirement that he would impose on Treasury. Depending on that definition, some might argue that the costs of explanation would exceed its benefits.

This issue also surfaced in Dominion Resources, in which the Court of Federal Claims upheld a regulation under section 263A. The court accepted that the duty of explanation applies to tax regulations. The court remarked: “it is a stretch to conclude that Treasury cogently explained why it has exercised its discretion [as it did in the regulation].”112 Despite the fact that Treasury’s explanation of the key choices lacked “analytical precision” and were “even confusing,”113 the court found the explanation adequate because Treasury did provide some explanation, Treasury responded to the remarks of commentators, and “the path that Treasury was taking in the rulemaking proceedings can be discerned, albeit somewhat murky.”114

I have offered tentative views about Judge Ambro’s argument elsewhere,115 and I will address it at greater length in a future article. The point now simply is that arguments like “failure to explain” and other staples of administrative law discourse will arise with increasing frequency in tax cases in the post-Mayo environment.

D. Chevron and Sub-Regulation Authorities

Mayo and the other recent cases involve challenges to Treasury regulations. Will we see more litigation in the future about whether Chevron deference attaches to IRS pronouncements of a lower level of dignity than regulations, such as revenue rulings, revenue procedures, notices, announcements, and the like?116

There has already been much discussion about this question.117 The preponderance of cases and commentary suggests that sub-regulation administrative tax authorities typically should receive deference under the more probing Skidmore rather than under Chevron.118

As one who often prefers bright lines to mushy facts and circumstances approaches,120 I would be happy to see this view attain settled status. But that might not be the case. First, despite Justice Antonin Scalia’s urging, the Supreme Court has resisted drawing a bright Chevron line.121 For example, the Court has stated that the use of the notice and comment procedure, although often a good indicator of Chevron qualification, is neither a necessary nor a sufficient condition for applying Chevron.122


112 107 AFTR2d para. 2011-1033, at *22 (punctuation omitted) (quoting State Farm, supra, 463 U.S. at 48).


114 Id. (quotation omitted) (quoting State Farm, supra, 463 U.S. at 43).

115 Steve R. Johnson, “Do Treasury and the IRS Have to Explain Their Choices?” ABA Section of Taxation NewsQuarterly, (Footnote continued in next column.)
Second, Treasury and the IRS sometimes omit notice and comment for regulations but sometimes employ it for sub-regulation pronouncements.\(^{123}\)

In short, the waters are muddy enough that the application of Chevron to sub-regulation authorities may grow as an aspect of controversy in the post-Mayo world. Indeed, the ink was barely dry on Mayo when a circuit court case reminded us that notice and comment is not invariably required for an administrative position to claim Chevron entitlement.\(^{124}\)

E. Future of Chevron

I’ve saved the broadest of the future issues for last. Now that tax regulations have been brought unambiguously within its domain, what may be the future of Chevron?

It is ironic that after waiting more than a quarter of a century, the Supreme Court unanimously applied Chevron to tax regulations after a rising chorus has proclaimed that Chevron has failed. Judge Ambro’s dissent\(^ {125}\) cites Prof. Jack M. Beerman’s article “End the Failed Experiment Now: How Chevron Has Failed and Why It Can and Should Be Overruled.”\(^ {126}\)

Beerman is far from alone. Many other commentators (both pro and nontax) have suggested that Chevron has failed, either empirically (because it is at best haphazardly applied)\(^ {128}\) or normatively (for many reasons, including that Chevron is contrary to the APA and that it lacks an adequate theoretical foundation).\(^ {129}\) But, of course, there isn’t uniformity of view as to Chevron’s success or lack of it. Chevron still has defenders.\(^ {130}\)

I share the opinion of Chevron’s critics. Chevron is the most widely discussed principle of administrative law.\(^ {131}\) Yet it is, in a sense, an accidental doctrine — the Court did not appreciate when it decided Chevron that the case would attain the significance it has.\(^ {132}\) Perhaps the Court would have thought more carefully about the underpinnings and consequences of its opinion had it had that foresight. In any event, both because of its original weakness and because of its massaging by subsequent cases, the skein of Chevron is now so knotty that its untangling may be impossible.

This does not cause me to lament Mayo. Until the Supreme Court abrogates Chevron, tax should be subject to Chevron no less than any other area of law is. The weaknesses of Chevron argue for the case’s overthrow or reform generally rather than serving as an excuse for tax exceptionalism.

Despite the trenchant criticisms of Chevron, I doubt that the Supreme Court will accept Beerman’s invitation to overrule it. The unanimity of Mayo suggests that the Court is in no such mood. Nonetheless, as identified in Part II above, significant questions remain as to the nature of the inquiries to be made under the Chevron framework. The practical and theoretical problems with Chevron will affect the resolution of those questions. In light of Mayo, we in the tax community have a vital interest in that resolution, and we cannot remain indifferent to the larger debates about Chevron and its future.

V. Conclusion

Mayo is a welcome decision. It settles several important questions that had lingered too long. I doubt that Mayo will change the outcomes of many litigated cases, but it will allow us to arrive at the right answers with less wasted motion. Standing on the platform of Mayo, we can now reach toward resolution of other issues as to the validity of Treasury regulations.

\(^{123}\) For example, in 2010 the IRS developed a new schedule, Schedule UTP, to be attached to the returns of business taxpayers to disclose uncertain tax positions taken on their returns. In doing so, the IRS used the notice and comment process. See Announcement 2010-75, 2010-41 IRB 428, Doc 2010-20922, 2010 TNT 186-26, and Announcement 2010-9, 2010-7 IRB 408, Doc 2010-1882, 2010 TNT 17-14.

\(^{124}\) Beard, 2011 WL 222249, at *7.

\(^{125}\) Mannella, 631 F.3d at 127, n.14.

\(^{126}\) 42 Conn. L. Rev. 779 (2010).

\(^{127}\) As one example in tax, Prof. Bryan Camp does not conceal his distaste for Chevron. Camp, supra note 4, at 507 (“Everybody starts with Chevron. What a crock.”).


