



Mannella, State Farm, and the Arbitrary and Capricious Standard

PRACTICE AREAS

Tax

Tax Accounting

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Tax Notes

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In *Mannella*, the Third Circuit agreed with the Seventh Circuit's *Lantz* decision, which upheld the validity of regulations imposing a two-year time limit on claims for equitable innocent spouse relief under section 6015(f). Dissenting in *Mannella*, Judge Thomas L. Ambro would have held that Treasury and the IRS violated step two of *Chevron* because they provided no explanation of their reasons for imposing this two-year time limit when the rule was adopted.

Judge Ambro concluded that in the absence of a contemporaneous explanation of an agency's reasoning, it is impossible for a reviewing court to exercise its role under *Chevron* in evaluating whether the agency's action represented reasonable decision-making. Judge Ambro's conclusion has substantial support in administrative law relating to the Administrative Procedure Act's arbitrary and capricious standard as interpreted in the Supreme Court's landmark 1983 *State Farm* decision.

State Farm requires that agencies engage in reasoned decision-making and that they provide contemporaneous explanations of their reasoning so reviewing courts can evaluate whether the agency has satisfied the reasoned decision-making requirement. The requirements imposed by *State Farm* are commonly viewed as substantially similar to the requirements of *Chevron* step two. Although *State Farm* violations are commonly asserted against other agencies, they are rarely asserted against Treasury and the IRS, even though the preambles to regulations often fail to provide the type of explanation *State Farm* requires.