Armco, Inc. v. Commissioner, 87 T. C. 865 (1986)

Post-hoc affidavits from individuals involved in drafting tax regulations are inadmissible as they do not represent institutional intent and are not relevant to interpreting the regulations.

Summary

In Armco, Inc. v. Commissioner, the Tax Court addressed the admissibility of an affidavit from Karl Ruhe, a former IRS and Treasury Department employee involved in drafting a tax regulation on depreciation. The court ruled that Ruhe's affidavit, created 12 years after the regulation was adopted, was inadmissible because it did not reflect institutional intent and was irrelevant under Federal Rule of Evidence 401. The decision clarifies that individual opinions on regulatory intent, especially those not contemporaneous with the regulation's adoption, cannot be used to interpret tax regulations, emphasizing that courts bear the responsibility of interpreting such regulations.

Facts

Armco, Inc. sought a pretrial ruling on the admissibility of an affidavit from Karl Ruhe, who had assisted in drafting section 1. 167(a)-11(d)(2) of the Income Tax Regulations. Ruhe's affidavit, created in 1983, aimed to explain the intended meaning of the regulation. Ruhe had served as Chief of the Engineering Appraisal Section at the IRS and later as Director of the Department of Industrial Economics at the Treasury Department. He was a key member of a task force responsible for formulating these regulations and was deceased at the time of the case.

Procedural History

Armco filed a petition in the United States Tax Court seeking a ruling on the admissibility of Ruhe's affidavit before trial. The Commissioner objected to its admission on grounds of relevancy and hearsay. Both parties submitted memoranda on the issue, leading to the court's decision that the affidavit was inadmissible.

Issue(s)

1. Whether an affidavit from a former IRS and Treasury Department employee, created years after a regulation's adoption, is admissible to explain the intended meaning of the regulation.

Holding

1. No, because the affidavit does not reflect institutional intent, was not contemporaneous with the regulation's promulgation, and thus is irrelevant under Federal Rule of Evidence 401.

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Court’s Reasoning

The court reasoned that Ruhe’s affidavit was inadmissible for several reasons. First, it did not tend to prove or disprove any fact of consequence to the case, as defined by Federal Rule of Evidence 401. Second, Ruhe’s views were only one among many on the task force, and his affidavit represented personal rather than institutional intent. The court noted, “Ruhe’s statement of his intent is not necessarily congruent with institutional intent. ” Third, the affidavit was created 12 years after the regulation’s adoption, lacking the contemporaneity needed to aid in interpreting the regulation. The court emphasized that interpreting regulations is a judicial function and that post-hoc individual opinions hold no more weight than a revenue ruling. Finally, the affidavit was not prepared for public guidance, unlike preambles or official memoranda, which undergo institutional review and are intended to assist public understanding of regulations.

Practical Implications

This decision impacts how courts and practitioners approach the interpretation of tax regulations. It establishes that post-hoc affidavits from individuals involved in drafting regulations are not admissible to clarify regulatory intent. Practitioners must rely on the text of the regulations, any contemporaneous official statements, and judicial interpretations rather than individual opinions. The ruling reinforces the judiciary’s role in interpreting regulations and underscores the importance of contemporaneous institutional statements in regulatory analysis. Subsequent cases have followed this precedent, emphasizing that regulatory interpretation should not be influenced by personal views expressed after the regulation’s adoption.

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