132 T.C. 131 (2009)

A Treasury Regulation imposing a 2-year limitations period on requests for equitable innocent spouse relief under I.R.C. § 6015(f) is invalid because it contradicts Congressional intent.

Summary

Cathy Lantz sought equitable relief from joint income tax liability under I.R.C. § 6015(f) for the 1999 tax year. The IRS denied relief, citing a Treasury Regulation (26 C.F.R. § 1.6015-5(b)(1)) that imposed a 2-year limitations period from the first collection action. The Tax Court considered the validity of this regulation. The Tax Court held that the regulation was an invalid interpretation of I.R.C. § 6015(f) because Congress intentionally omitted a limitations period for equitable relief, while explicitly including one for other forms of innocent spouse relief. The case requires further proceedings to determine if Lantz qualifies for equitable relief.

Facts

During 1999, Cathy Lantz was married to Dr. Richard Chentnik. They filed a joint tax return for 1999. Dr. Chentnik was later convicted of Medicare fraud, leading to a determination that their 1999 tax liability was understated. The IRS assessed additional tax, penalties, and interest. In 2003, the IRS sent Lantz a letter proposing a levy to collect the joint tax liability. Lantz relied on her husband to resolve the tax issue. After her 2005 overpayment was applied to the 1999 liability, she filed Form 8857, Request for Innocent Spouse Relief, in 2006, more than two years after the levy proposal.

Procedural History

The IRS denied Lantz's request for innocent spouse relief, citing the 2-year limitations period in 26 C.F.R. § 1.6015-5(b)(1). Lantz protested, but the IRS Appeals Office upheld the denial. Lantz then petitioned the Tax Court for review.

Issue(s)

Whether 26 C.F.R. § 1.6015-5(b)(1), which imposes a 2-year limitations period on requests for equitable relief under I.R.C. § 6015(f), is a valid interpretation of the statute.

Holding

No, because Congress's explicit inclusion of a 2-year limitation in I.R.C. § 6015(b) and (c), but not in I.R.C. § 6015(f), demonstrates a clear intent to exclude such a limitation for equitable relief.

Court's Reasoning

The court applied the two-prong test from *Chevron, U.S.A., Inc. v. Natural Res. Def. Council, Inc.*, 467 U.S. 837 (1984). First, the court examined whether Congress directly addressed the issue. The court found that while I.R.C. § 6015(f) does not explicitly state a limitations period, Congress's silence was not ambiguous. By including a 2-year limitation in I.R.C. § 6015(b) and (c) but omitting it from I.R.C. § 6015(f), Congress expressed its intent to exclude such a limitation for equitable relief. The court noted, "'It is generally presumed that Congress acts intentionally and purposely' when it 'includes particular language in one section of a statute but omits it in another'." The court also reasoned that equitable relief under I.R.C. § 6015(f) is available only if relief is not available under I.R.C. § 6015(b) or (c), implying that I.R.C. § 6015(f) relief should be broader. Imposing the same 2-year limit would undermine this intent. The court distinguished *Swallows Holding, Ltd. v. Commissioner*, 515 F.3d 162 (3d Cir. 2008), because that case involved a different statutory framework. The court also drew an analogy to cases involving Bureau of Prisons regulations, where courts invalidated regulations that limited the agency's discretion to consider all relevant factors. The court concluded that the regulation was an impermissible attempt to limit the factors for consideration under I.R.C. § 6015(f), contrary to Congressional intent. The court stated, "However, a commonsense reading of section 6015 is that the Secretary has discretion to grant relief under section 6015(f) but may not shirk his duty to consider the facts and circumstances of a taxpayer's case by imposing a rule that Congress intended to apply only to subsections (b) and (c)."

Practical Implications

This case clarifies that the IRS cannot impose a blanket 2-year limitations period on requests for equitable innocent spouse relief under I.R.C. § 6015(f). Practitioners should argue against the strict application of this regulation and emphasize the need for the IRS to consider all facts and circumstances, even if the request is filed more than two years after the first collection activity. This decision may lead to increased scrutiny of other IRS procedures that limit the availability of equitable relief under I.R.C. § 6015(f). It reinforces the principle that regulations must be consistent with Congressional intent and cannot unduly restrict the scope of equitable remedies. This case has implications for tax practitioners advising clients on innocent spouse relief, particularly in situations where the 2-year deadline has passed. It also highlights the importance of legislative history in interpreting statutes and regulations.

