

Tax Mavens

“Steeped in IRS law, and very effective at putting his experience in government to good use.”

(Chambers USA, 2010)

The Contemporary Tax Journal's Interview of Larry Langdon



By: Shadi Mahdinia, *MST Student*

Larry Langdon is well known in the practice of federal tax law due to the numerous high-level positions he has held over his long career and the contributions to the profession. He was the first Commissioner of LMSB (now LB&I) Division of the IRS from 1999 to 2003. Prior to his role as Commissioner, he held senior level positions in the private sector with leading firms such as Hewlett-Packard, Vetco, Inc., and the Ford Motor Company. He is currently at Mayer, Brown, LLP in Palo Alto as partner and director of the firm's Global Tax Practice.

Mr. Langdon believed he could make a material difference at the IRS and did so, in particular, by bringing efficiency to the examination process. He was able to institute dispute resolution processes designed to reduce appeals time, eliminate corporate tax shelters, and introduce innovative management strategies, such as the Pre-Filing Agreement Program. Earlier in his career, he served as a volunteer at the Tax Executives Institute for many years, including as president from 1986 to 1987. Mr. Langdon is a frequent speaker at state and national tax conferences.

Following are the questions and answers from an interview of Mr. Langdon conducted in February 2012.

SJSU CTJ: After a long career in corporate tax, why did you accept the job of IRS Commissioner of LMSB (now LB&I)?

Langdon: I had been vice president, tax, licensing and customs at Hewlett Packard for 22 years, and it was time for me to retire as an officer of HP. Charles Rossotti, as the new commissioner of the IRS, spent three months recruiting me. Ultimately, I was interested in the job because I was interested in public service, and I had several ideas that I thought would be helpful to improve tax administration for corporate America. After graduating from the MBA program at Harvard, Charles Rossotti worked for David Packard when Dave was Deputy Secretary of Defense. Mr. Rossotti wanted to bring HP management skills to the IRS, and he believed that by recruiting me, that might occur. Mr. Rossotti was an excellent executive during his years as CEO of American Management Systems. He allowed the operating division commissioners to have a fair degree of autonomy and accomplish their own goals and objectives, like sector executive stewards in corporate America. His management style was very similar to that which I had experienced at HP, and that was very attractive to me.

Debbie Nolan was Deputy Commissioner LMSB and a career IRS executive. She and I had the opportunity to recruit all the executives into the LMSB management team. We called this team “The Team of 38”, and every quarter we met as a team to formulate our goals and objectives, discussed the changes we were implementing, and evaluated our successes and failures. We were able to select those executives from 200 executives at the IRS by using behavioral interviewing. That is, by asking them: How do they lead people? How do they lead change? What is your business acumen? What are your technical abilities? These types of questions enabled constructive and proactive evaluation. We brought six executives from outside including Carol Dunahoo, Director of International and Competent Authority and Cliff Jernigan, Senior Technical Advisor, Communications, Technology and Media.

One of the key factors which created the opportunity for success was the 1997 hearings by the Senate Finance Committee that had improperly disparaged the IRS workforce by calling them incompetent and not service-oriented. After we started the operations of LMSB, we found that the majority of the IRS employees and managers were very service-oriented and wanted to support the long-term success of the agency. The employees and managers actively helped move the IRS to new goals and objectives that we had at LMSB – we were able to increase service to taxpayers, speeding up the dispute resolution process, putting new tools and techniques in place, including pre-filing agreements, and fast-track appeals. A pre-filing agreement allows a taxpayer to come to the IRS and resolve disputes prior to filing a return. The fast track appeals process allows IRS agents and taxpayers to go to an appeals officer and resolve the issue in a quick professional manner; in fact it reduced the time needed for the dispute resolution process by 90%.

Working at the IRS was a very rewarding and challenging experience for me, and the LMSB team at all levels were able to accomplish a great deal. In the process, we all realized that

bringing change to the government is not always easy, so sometimes we had to take two steps forward and one back.

SJSU CTJ: When you were the Commissioner of LMSB you took on the project of addressing tax shelter problems. What did you do to control these transactions and how successful were you?

Langdon: In the 1990's many CPA firms, law firms, investment bankers, and financial product-marketing firms were selling tax-motivated transactions to corporate America. Some of these transactions were too aggressive and would not be sustained by the IRS and the courts. So, at LMSB, we established the Office of Tax Shelter Analysis, a team to evaluate these transactions and get out early published guidance to taxpayers and IRS personnel. To accelerate the review of questionable transactions, Commissioner Rossotti approved a Disclosure Initiative, whereby taxpayers could disclose a transaction, provide the name of the promoter, provide the marketing and promotion opinions and materials, pay appropriate taxes and interest, but be forgiven any penalties. We started auditing promoters, which allowed thousands of transactions to be disclosed to the IRS.

We had another challenge with about 50% of LMSB managers and employees eligible for retirement. We solved this challenge by having LMSB recruit qualified people from outside the IRS. We were able to recruit qualified people at Grade 13, at which compensation is about \$100,000 per year. The recruiting classes were limited to tax professionals with more than 15 years of experience, a Masters in Tax, a CPA or law degree, and experience in CPA firms, law firms, or corporations. Currently, the IRS needs to continue to recruit people that have management experience in corporate America and CPA firms.

SJSU CTJ: What are the most important challenges the IRS faces today, and how do you think the IRS can address the challenges it faces given limited budget, frequent law changes, and a more global business environment?

Langdon: Studies indicate that the U.S. Treasury loses more than 15% of revenue because of a lack of effective compliance under the tax laws. The U.S. tax system is based on voluntary compliance. This means that people must have confidence in the system, understand it, and file returns in a proper way. The IRS has a limited budget and I believe the IRS has about 18,000 revenue agents to audit the entire country. As a point of reference, China has 1,000,000 agents. Since effective and visible tax administration insures tax compliance, the IRS needs an increase in its examination budget.

Another major obstacle to tax compliance is the complexity of tax laws, particularly the income tax laws. I would eliminate the middle class from the income tax system and provide a value added tax system to fund the federal government, as these taxes are easily administered in large manner. The income tax system is too complicated for individuals, and it is a real burden. We need to have a more balanced tax system that mirrors the tax system of our global trading

partners. We are in a global economy, and all of our trading partners have a consumption or value-added tax system.

SJSU CTJ: What is the prospect for major federal tax reform?

Langdon: In spite of being a fan of exempting the middle class from the income tax system and the addition of a value added tax system, I do not think we are going to have major tax reforms soon. We need to have a more robust economy before Congress can enact the necessary tax reforms. Like many others, I am concerned about our federal deficit and the lack of our global competitiveness.

SJSU CTJ: You have devoted a lot of time to volunteer work and getting involved with professional organizations throughout your career. How would you recommend that a young tax professional get involved in serving the tax profession, and why?

Langdon: I have always been a fan of being involved in professional organizations in any way I can. If you are a CPA, get involved in the CPA society; if you are a company tax professional, get involved with the Tax Executives Institute; if you are a chief tax officer, get involved in the chief tax officers' group in your industry. As part of career development, you need to learn and work with others and participate in professional groups. We need good leadership in the tax profession, particularly by people who have graduate degrees in taxation. You should shoulder that as an important part of your responsibility.

I am also on six non-profit boards, and I am a fan of the volunteer sector of American society. Volunteers do make a difference, so look for areas in which you can volunteer and make a difference.

SJSU CTJ: If you could have lunch with anyone, who would it be, and why?

Langdon: I guess my first choice, which would be impossible, is with Warren Buffett. I know every MBA student in this country would like to have lunch with Warren Buffett. So, my second choice would be the Secretary of the Treasury, Timothy Geithner, for a lot of different reasons. First, as you know, yesterday President Obama put out his new tax proposals, and I would like to hear the Secretary of the Treasury's views on those tax proposals. Second, perhaps more importantly, is to know more about the Secretary's views of the global economy and in its effect on the future with regard to all the challenges facing the United States, Europe and Asia. Third, to talk about what the Secretary has done to improve the economic environment. This is important, because I know that we are all concerned about future jobs. These are the reasons why I would like to have lunch with Timothy Geithner.