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IRS Large Business and International (LB&I) Division Realigned

On May 23, 2012, the Commissioner of the Large Business and International (LB&I) division of the Internal Revenue Service (IRS), Heather C. Maloy, announced a realignment of the LB&I division's structure. The stated goal of the realignment is to make the division more agile, efficient and consistent in its ongoing operations. The IRS also expects the realignment to help various LB&I industry groups identify the most relevant issues. The realignment is focused on domestic tax rather than international tax concerns and is scheduled to take effect on October 1, 2012.

Current Status

On October 1, 2010, the former Large and Mid-Size Business (LMSB) division became the LB&I division. That reorganization was designed to centralize the IRS's international tax compliance initiatives, demonstrating the agency's heightened concern with international tax issues.

The LB&I division oversees corporations, subchapter S corporations and partnerships with assets in excess of \$10 million. Currently, the LB&I Commissioner directly manages three director positions: the Director for Pre-Filing & Technical Guidance, the Deputy Commissioner (International) and the Deputy Commissioner (Operations). The acting director for Pre-Filing & Technical Guidance is Sunita Lough, whose group generally provides support and facilitative services to the division. The Deputy Commissioner (International) is Michael Danilack, who supervises the International Individual Compliance, International Business Compliance and Transfer Pricing groups.

Paul D. DeNard, the Deputy Commissioner (Operations), has a broader range of industry groups within his sub-division. These include Communications, Technology & Media (CTM), Financial Services, Heavy Manufacturing & Transportation (HMT), Natural Resources & Construction (NRC), Retailers, Food, Pharmaceutical & Healthcare (RFPH) and Global High Wealth.

Sub-Industry and Field Specialist Realignment

Several sub-industries are being swapped between industry groups. HMT will no longer include transportation but will be replaced with pharmaceuticals to create Heavy Manufacturing & Pharmaceutical (HMP). Correspondingly, RFPH will lose pharmaceuticals and gain transportation, thus becoming Retailers, Food, Transportation & Healthcare (RFTH).

In addition, the field specialists organization is being realigned within the various industries. Computer audit specialists will join RFTH, engineers will join NRC and financial products specialists will join Financial Services. The LB&I division is attempting to align specialists in a way that it claims will take advantage of synergies between agents and specialists, thus strengthening the industry groups and helping them to more efficiently identify the most important tax issues.

Geographic Realignment

The realignment will also reorder five of the six industry groups to more naturally fit geographic regions. The goal is to improve managerial efficiency and reduce costs, particularly travel expenses. Specifically, the realignment is based around contiguous state borders. CTM will now reside in the West, Financial Services in New York, HMP in the East, NRC in the South and RFTH in the Midwest.

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New Director of Shared Support

The LB&I division is also forming a new Shared Support group with its own director. Instead of having support functions report to the Deputy Commissioner (Operations), they will instead report to the new Shared Support Director. These functions include Business Systems Planning, Management & Finance, and Planning, Analysis, Inventory and Research. This change will allow the Deputy Commissioner (Operations) to focus exclusively on domestic strategy and operations. Given this narrower focus, that director position will be renamed the Deputy Commissioner (Domestic).

Taxpayer Impact and General Observations

The IRS has indicated that it does not anticipate the realignment will have any significant impacts on ongoing tax audits or casework. While examination teams and their personnel will not change as a result of the realignment, some taxpayers will find that their audit teams will report up through a different LB&I industry group and to different territory managers and directors of field operations. In audits where upper management has been involved in the process, taxpayers may be concerned about the potential impact that the realignment changes could have on current audits.

It is not immediately clear how this realignment will accomplish the stated goal of increasing efficiencies and making the division more agile. By further compartmentalizing the industry groups and adjusting the reporting structure for teams and managers, the LB&I division could damage any pre-existing efficiencies in its reporting structure. The regionalization of industry groups may reduce travel costs, but its impact on operational effectiveness and, more importantly, on taxpayers is yet to be determined.

The emphasis on a geographical realignment here is noteworthy compared to the international realignment of two years ago. That prior realignment added an international specialization function that oversees issues on a nationwide basis, without regional or geographical limitations. The geographical nature of this domestic-focused realignment suggests a fundamentally different approach to domestic tax issues. (Note that the Global High Wealth Industry group within LB&I also functions as a nationwide specialty group that is not geographically based.)

Finally, the realignment announcement noted LB&I's recent introduction of Issue Practice Groups (IPG), which focus on specific areas of complex tax administration. While few details about the new IPG strategy have been communicated (IRS officials have said that more details will be provided shortly), the announcement indicated that LB&I employees will continue to work together between industry groups to identify issues and ensure consistent treatment. It remains to be seen how the geographic realignment, coupled with the still-developing IPG strategy, may affect taxpayers trying to resolve issues that require input from multiple industry groups and from upper IRS management.



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