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IRS Pressured on '74 Nixon Audit

WASHINGTON—The story can now be told how the White House, even after the Watergate cover-up had been fully exposed, continued to use Watergate tactics in an attempt to block a 1974 audit of Richard M. Nixon's tax returns.

Despite the intervention, the Internal Revenue Service went ahead with the audit. But the charges against Nixon strangely were limited to simple negligence. A fraud penalty not only would have forced him out of office months earlier but also would have cost him \$148,080.97 in back taxes.

Outgoing Internal Revenue Commissioner Donald Alexander acknowledged that the White House pressured him in 1974 to quash the Nixon tax audit. He was joined by then-Treasury Secretary George Shultz in resisting the White House pressure, Alexander told us.

We checked with Shultz, who confirmed Alexander's account. "We all wanted to do the right thing," Shultz recalled. Neither would discuss the details of the White House intervention. Alexander said only that he expected to be fired for refusing to stop the audit. Both agreed that the political pressure ended when Gerald R. Ford became President in August, 1974.

A year earlier, the Internal Revenue Service delicately audited Nixon's tax returns and found them to be in perfect order. But press exposes and a congressional investigation persuaded the IRS to conduct a second audit in 1974.

This revealed that Nixon had deeded one-third of his vice presidential papers, developed at the taxpayers' expense, back to the taxpayers. In return for this gift, he claimed a \$576,000 tax deduction.

There was one hitch; the law permitting tax deductions for personal papers had expired. But White House aide Edward Morgan got around this obstacle by illegally backdating the gift.

It was a clear case of fraud, which normally would have been brought against the errant taxpayer. But Taxpayer Nixon claimed he was unaware of the backdating.

The two attorneys who prepared the fraudulent returns, Herbert Kalmbach and Frank DeMarco, swore they explained the tax figures carefully to Nixon, who carefully checked each page before signing the forms.

Nixon's tax documents also show that he took a personal interest in claiming every possible deduction. He contended, according to the documents, that "a public man does very little of a personal nature." Therefore, he instructed his aides to count all entertainment and gifts as "business" deductions.

But the fraud charges were brought against the unfortunate Morgan, who pleaded guilty. Nixon was merely nailed for negligence. He paid a \$284,706.16 assessment for back taxes for the years 1970-71-72. The IRS informed him that he also owed \$148,080.97 in

back taxes for 1969. But the 1969 assessment didn't really have to be paid because the statute of limitations had run out.

On April 3, 1974, Nixon solemnly promised to pay all his back taxes, including the 1969 bill. Yet he still hasn't paid the \$148,080.97. If he had been convicted of fraud, the statute of limitations would no longer apply, and he couldn't avoid paying the \$148,080.97.

Inside sources tell us that the former President should have been charged with fraud. They suspect the White House pressure, though it failed to block the tax audit, may have led to downgrading the fraud charge. Both Alexander and Shultz insisted, however, that they resisted all White House political pressures.

They conceded that the Nixon audit was only one of many cases in which the White House tried to meddle. In 1973, for example, the White House quietly protested an IRS decision to examine political committees. There was a similar howl from the White House when the IRS decided to tax political parties.

Alexander told us that Nixon also tried to use the Bureau of Alcohol, Tobacco and Firearms for political purposes. The former President planned to use the new agency as a refuge for political hacks, such as the convicted Watergate burglar G. Gordon Liddy, according to Alexander.

Footnote: We have been unable to get any comment from Nixon.