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Politics Gifts, And Taxes

By Morton Mintz

Suppose you were well enough off this year to have given your son, say $30,000, for Christmas. Naturally, you wanted to avoid gift taxes. And so you set up the Blessed Event Committee, the Beloved Heir Committee, the Chip Off the Old Block Committee and seven other paper organizations. You gave each $3,000 to be passed along to your son, so that he got the $30,000 in 10 equal shares.

Now, you plan to claim to the Internal Revenue Service that you owe no gift taxes for 1972, because you did not exceed the $3,000 limit on tax-free gifts a single person may make to a single recipient in a single year. The IRS, you may be certain, will tell you to go jump.

Now let's revise the scenario. You gave $30,000 to President Nixon's or Sen. McGovern's presidential campaign. To help you try to avoid gift taxes, the campaign organizations set up conduit committees with names such as the Richard is Resplendent Society or the George is Gorgeous Group. You gave $3,000 to each of 10 such GOP or Democratic units . . . the same routine as before. This time, though, the IRS will snap to attention and salute.

The obvious effect of the IRS policy, in a word, is to provide a tax deterrent for large gifts to one's own flesh-and-blood without providing a similar dterrent for political candidates.

Other effects are less obvious but more important. Fatcat political contributors, freed from paying gift taxes, tend to five more than they would otherwise. This makes it easier for them to dominate the financing of election campaigns, with all that implies in Terms of the integrity of the democratic process.

Moreover, the full disclosure intended by the new Federal Election Campaign Act is frustrated. If a contributor gives, say, $300,000, the public is much more likely to learn this if it is reported all at once than if it is spread among 100 separate committees.

"We have widespread use of the device of multiple committees to facilitate avoidance of gift tax liability by major contributors," the General Accounting office has told IRS Commissioner Johnnie M. Walters.

"This is particularly true of the presidential candidates of the two major parties," said Philip S. Hughes,

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director of the GAO's Office of Federal Elections.

"We have received reports from approximately 725 separate committees supporting Sen. McGovern and from approximately 250 committees supporting President Nixon."

Commonly, Hughes said, the central campaign committees themselves create numerous satellites and then advise large contributors to send a single check or transfer a single block of stock "with directors that the committee act as his agent in dividing the total amount into portions of not more than $3,000 each and distributing each portion to a separate committee."

"The foregoing techniques create a tremendous administrative burden... as well as making it more difficult for interested members of the press or public to ascertain the identity and total contributions by large contributors," Hughes said.

Last June, the IRS removed the last shred of pretense that committees supporting one candidate must be truly independent if contributors are to avoid gift taxes.

In a ruling, the agency said the test of independence is passed "if at least one-third of the officers... are different in each of the committees", or, to put it another way, even if two-thirds are the same.

The ruling assured substantial savings to large donors. Take Richard M. Scaife of Pittsburgh, an heir to the Mellon industrial and banking fortune. He has acknowledged that he gave the Nixon reelection campaign $990,000 through 330 separate committees. Gift tax, had he owed it, would have ranged between $244,000 and $590,000, depending upon the extent of his other gifts. For W. Clement Stone, the Chicago insurance tycoon who reportedly gave $2 million, the tax range would have been $1.4 million.

Sen. McGovern's large contributors who divided their gifts among numerous committees (allowing for loans later converted to outright gifts) included Max Palevsky, Los Angeles film producer, more than $300,000; Dr. Alejandro Zafferoni, developer of a synthetic contraceptive hormone, $220,000, and Nicholas and Daniel Noyes, young heirs to an Eli Lilly pharmaceutical fortune, at least $100,000 each.

Ralph Nader and his Public Citizen, Inc., petitioned the IRS to disclose who requested the ruling and, as well, the documentation and reasoning underlying it. The IRS refused. With that, Public Citizen lawyer William

Dobrovir filed a lawsuit that is now pending in U.S. District Court.

To the GAO's Hughes, at least, the answer is simple: Either the IRS should count all contributions a person makes to one candidate as a single taxable gift, or it should drop the tax gift on political donations altogether.

Last year, long before the ruling was announced, a public relations executive has sworn that he set up 150 separate, secret fund-raising committees for President Nixon, to enable large contributors to 'avoid the gift tax."

"This is a standard political practice used by both parties," Robert F. Bennett said in a deposition filed by Dobrovir in a separate District Court case.

"It is little understood by the public at large," Bennett said. "I did understand it, and decide, therefore, that this was a contribution I could make."

Notably, Bennett said he was careful to give each of the 150 committees a different treasurer. He said the idea for the committees was his own, although he had told Herbert Kalmbach, the President's personal lawyer, about it, and had gotten legal help from Tom Evans, a member of the President's old law firm who lately became co-chairman of the Republican National Committe.