IRS Acts to Tax Gains On Political Stock Gift

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By Susanna McBee
Washington Post Staff Writer

The Internal Revenue Service announced yesterday that unless Congress objects, it will tax the gains that political campaign committees made by selling gifts of stock after last Oct. 3.

In what he called a "far-reaching" policy change, IRS Commissioner Donald C. Alexander said the government would also require political parties and campaign committees to file income tax returns, starting with one for last year.

However, he declined to say when the new policies would go into effect other than to quote an IRS statement that the agency "will not seek to enforce them until it appears that Congress has had an opportunity to consider the problem specifically."

Hugh M. Sloan Jr., former treasurer of the Finance Committee to Re-elect the President, has estimated that Nixon campaign contributions in stock totaled $18 million to $20 million.

Marian Pearlman, former treasurer of the McGovern for President committee, estimated yesterday that stock gifts to Sen. George McGovern's campaign came to less than $1 million, including those contributed by philanthropist Stewart R. Mott, which were worth about $400,000.

Rep. Henry S. Reuss (D-Wis.), who has been pushing the IRS to collect taxes on the stock sales, immediately denounced the agency's statement as "legalized larceny."

He charged that "almost all" of the stock gifts and sales by campaign committees occurred before Oct. 3 and said IRS officials, by not seeking to tax such gains, "are trying to complete a heist for Nixon in broad daylight. I'm not going to let them get away with it."

Reuss, a member of the Joint Economic Committee of Congress, said he will quiz Secretary of the Treasury George P. Shultz about the IRS statement when Shultz appears before the committee this morning.

Reuss estimated that the possible liability of Mr. Nixon's campaign committees for income and gift taxes on the stock would exceed $5 million. He did not provide an estimate on income and gift tax liabilities on the McGovern campaign's stock gifts.

The congressman said that if the IRS policy proposal is approved, "it will mean huge sums can be evaded by the various Nixon campaign committees."

He cited as a typical Republican solicitation tactic a letter written early last year by Thomas P. Pike, Mr. Nixon's chief California fund-raiser.

Pike's letter to potential donors says, "The simplest and most painless way (to contribute funds) is by giving appreciated low cost securities to several committees (whose names I can supply) in amounts of $3,000 to each committee. In this way neither gift tax nor capital gains tax liability is incurred, and I can easily explain to you the mechanics of doing it."

Democratic sources said that much of the McGovern stock gifts and sales also occurred before Oct. 3 and would thus be exempt from tax liability under the proposed IRS policy.

Sheldon S. Cohen, general counsel to the Democratic National Committee and former IRS Commissioner from 1965 to 1969, said, "Congress has got to address this problem. It should rule that political parties are corporations and make them liable to taxation. It's not clear whether candidates should be taking stock gifts. I think Congress should require that the donors ought to be taxed on the difference between what they paid for the stock and what it's worth when they give it to a campaign."

Efforts to reach a spokesman for the Nixon re-election committee were unsuccessful.

IRS Commissioner Alexander noted that both the Republican and Democratic National Committees had asked the agency not to make the stock sales tax retroactive, and that the Republican Committee contended such a tax would be unconstitutional.

He said IRS does not propose to tax the gains on stock sales before last Oct. 3 because that was the date the agency first expressed public concern about the practice.

Alexander noted that IRS's own chief counsel had held from 1957 to 1965 that political parties were constitutionally exempt from any federal taxes.

Now, he said, the agency proposes not only to tax stock gift sales but also gross income of parties or committees on interest and dividends from investments and any ancillary commercial activities" like putting out a newspaper or selling a car in a way unrelated to a candidate's campaign.

He said the IRS will have to determine whether to tax the political organizations as corporations, quasi-trusts, or partnerships. The single flat tax rate on corporate capital gains is 30 per cent. Partnerships and trusts are taxed the same way as individuals, and the rate on capital gainst would range from 7 to 35 per cent.