White House Had Role in Hughes Case

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The White House had a role in a continuing effort by the Howard Hughes Medical Institute to get a multimillion-dollar annual tax break, Treasury Department documents disclose.

A packet of correspondence released by the department includes a "Dear John" letter to John W. Dean III calling the attention of the then-White House counsel to "a situation with which I think you should become familiar."

The letter disclosed an attempt by billionaire recluse Howard R. Hughes, a major Nixon campaign contributor, to go outside normal official channels for favorable action on Treasury tax regulations—an area supposedly insulated from political influences.

Although Treasury has not taken the action requested in the letter, it has by sustained inaction allowed the Hughes Medical Institute to reap a minimum estimated tax saving of $72 million to $108 million.

The letter to Dean was written in July, 1971, by Robert F. Bennett, president of he public relations firm that represents Hughes in Washington. The billionaire funneled some of his contributions to the President's re-election drive through Bennett.

Bennett wanted the institute exempted from proposed Treasury regulations requiring that to be tax-exempt, a medical research organization must pay out 4 per cent of the fair market value of its assets annually for medical research.

In the institute's case, the proposed regulations would require an estimated yearly payout of $24 million to $40 million, compared the current annual contribution of about $1 million.

Dean asked Charls E. Walker, then Under Secretary of the Treasury, to draft a response to Bennett's letter. Walker's draft termed the proposed regulations "entirely reasonable."

Walkered noted that had the institute been classified as a private foundation under the Tax Reform Act of 1969, it would have had to pay out 6 per cent of the fair market value of its assets—an estimated $36 million to $60 million a year—and eventually divest itself of control of Hughes Aircraft Co.

But "the Hughes group . . . sought and obtained other relief," Walker told Dean. This was an implied reference to a lobbying campaign, led by former Sen. George Smathers (D-Fla.), that resulted first in the Senate Finance Committee and then Congress exempting medical research organizations from the foundation provisions.

Walker told Dean that the Hughes group "chose to take the risk" that their institute later would be covered by Treasury regulations for medical research organizations.

However, none of this "they asked for it" tone was in the "Dear Bob" note Walker drafted for Dean to send to Bennett. Instead, the note said that the proposed regulations "are being reconsidered in the light of this particular situation"—the arguments made to Walker by Hughes Aircraft and institute representatives.

Rep. Wright Patman (D-Tex.), chairman of the House Subcommittee on Domestic Finance, first asked Treasury Secretary George P. Shultz for the correspondence on June 1, but did not get it until last week. Patman has distributed copies to members of his subcommittee.

The institute disclosed to the subcommittee last April that it has been trying for almost three years to be classified as a public charity. As such it could pay out as little as it wants to for charity and be free of provisions in the 1969 law such as those prohibiting self-dealing.

Howard Hughes totally controls the institute as its sole trustee. At the same time, he is president of Hughes Aircraft. Its stock is 100 per cent owned by the institute.

During the three years the institute's application has been pending, it has been getting an annual tax break of at least $24 million to $36 million, depending upon the final determination of its status Treasury ultimately may make.

During approximately the same period, Howard Hughes has made substantial campaign contributions, including $150,000 recorded by the Finance Committee to Re-elect the President.

In 1971, when Hughes representative Bennett wrote Dean, Treasury Secretary John B. Connally was leading the successful administration effort to get legislation guaranteeing a loan of $250 million to Lockheed Aircraft Corp.

Bennett told Dean to was "incongruous for the Treasury Department to be spending so mich of its time and expertise on an effort to aid the Lockheed Corp., a company with cash flow problems, while at the same time embarking on a course . . . which will create similar if not more serious cash flow problems" and possibly "a crisis" for another defense contractor, Hughes Aircraft.

His point here was that if the institut should be ruled a medical research organization required to pay out 4 per cent of its assets, the company might have to pay the institute more than it earns.

Bennett urged a "Grandfather" clause to exempt the institute, noting that a draft of one had been submitted to Treasury by instute counsel.

The correspondence delivered by Treasury also shows that the proposed regulation opposed by Hughes was opposed, as well, by House Ways and Means Committee Chairman Wilbur Mills (D-Ark.) and Sen. Paul Fannin (R-Ariz.), a member of the Senate Finance Committee.