

Watergate and Taxes

By Lester B. Snyder

WEST HARTFORD, Conn. — The tax aspects of political campaign financing are an important part of the Watergate scandal. They should receive more of the spotlight.

The tax law today, with its finely tuned enforcement procedures, actually provides the best available method of curbing corrupt and undercover campaign practices. However, when the Internal Revenue Service recently took a new stance on taxing political funds, it failed to come to grips with some basic questions on campaign financing. Particularly, the I.R.S. appears to go easy on the Committee to Re-elect the President and those generally accountable for the millions of dollars of covert and overt campaign funds.

The I.R.S. starts out by admitting there is nothing in the Internal Revenue Code itself which immunizes political parties or committees from filing income tax returns. Then the service proposes that these groups and individuals receive a special tax break. The I.R.S. says, "Let's tax only the investment income earned on funds held by these organizations." Exempt would be all "donations" and presumably any and all other money acquired.

For example, if the Committee to Re-elect the President solicited a \$100,000 "contribution" from a business executive in return for a political favor, would the committee be taxable for that amount? The Internal Revenue Service says no.

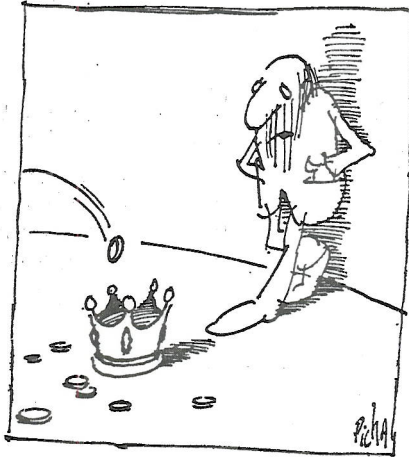
There are at least two ways this I.R.S. position represents a marked departure from the way tax laws are applied to other U.S. taxpayers.

First, the laws of the land in no way state that political contributions are never to be thought of as income. Over the years, our tax law has developed an elaborate set of rules which apply to certain so-called "tax-exempt organizations." Churches, colleges and charities are covered, but nowhere are political parties mentioned.

As a matter of fact, an otherwise "exempt organization," like a college, loses its tax-exempt status if it gets too heavily involved in political action. This means that political donations are clearly not the same (for tax purposes) as charitable contributions. And this is true for both contributor and recipient alike.

There is one income tax law which might bear directly on taxation of political donations, and this statute deals with "gifts." To acquire exemption for a gift the recipient must prove it was acquired on the basis of "affection, respect, admiration, charity or like impulses," and not for services rendered or to be rendered.

Thus, all "gifts" received by any campaign organization, including the



re-election committee, would have to be substantiated under the tax law, even if disclosure were not required under campaign laws.

The net effect of all this could mean that large, business-motivated contributions would be taxable. The small, true "gift" would remain exempt. (Only expenses incurred in raising funds would be deductible.) This appears compatible with present Congressional sentiment on revision of campaign financing law, and also with recent tax law changes which allow a write-off for only the first \$50 of political contributions of individuals.

Under the I.R.S. policy statement even those political funds diverted to "illegal purposes" or "dirty tricks" may go untaxed to the committee, if the I.R.S. insists on waiting for some court to declare these activities illegal.

Another problem area that should not be overlooked is the tax benefit derived by contributors who evade the ban against deducting political contributions, by using indirect and sophisticated techniques. It is not uncommon for a large corporation to permit some of its officers or key employees to offer their time and services to a political candidate.

The tax aspects of political campaign financing are highly sensitive parts of the present crisis in our political system. The tax laws have long been used by I.R.S. to police deviant actions by other politically active organizations or institutions, such as colleges, foundations and environmental groups, which have jeopardized their tax-exempt status. There is no reason that these same laws should not also be used to help disclose irregular political activities.

For years, Congress has insisted that the tax law should not permit large amounts of money to influence the outcome of political campaigns. The latest I.R.S. proposed amnesty for political parties would seem to be inconsistent with that policy.

Lester B. Snyder is professor of law at the University of Connecticut.