

Democrat Bids Tax Agency Act on I.T.T.

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WASHINGTON, Jan. 11 — Representative J. J. Pickle urged the Internal Revenue Service today to act soon on a recommendation of its New York district office to revoke a 1969 tax ruling that benefited the International Telephone and Telegraph Corporation.

The Texan, the ranking Democrat on the Investigations Subcommittee of the House Commerce Committee, made public a letter to the Commissioner of Internal Revenue, Donald Alexander, noting that the statute of limitations on the ruling expires April 15.

Mr. Pickle also reminded Mr. Alexander that for four years tax experts had questioned whether the conglomerate had really met a legal condition required for the private ruling. Before granting the ruling on Oct. 21, 1969, the service required the conglomerate to sell unconditionally its shares of stock in the Hartford Fire Insurance Company, prior to a vote of Hartford's shareholders on the question of a merger of the two concerns.

Cost Figure Questioned

If the revenue service revokes the ruling by then, it can collect back taxes from those who profited from a 1970 exchange of stock in a merger involving International Telephone. The exchange was made under the revenue service's private ruling — one "that interprets and applies the tax laws to a specific set of facts."

Mr. Pickle said that the subcommittee and the Securities and Exchange Commission had information "that I.T.T. did not meet that condition."

In a statement, Mr. Pickle estimated that the conglomerate might have to pay costs of \$100-million to \$200-million if the ruling was revoked. Tax lawyers here think this estimate too high, but they believe

the company might incur up to \$50-million in costs from taxpayers' suits.

Mr. Pickle asked Mr. Alexander not only to act quickly but also to make public his final decision. This would run counter to a law forbidding the revenue service to discuss such private rulings.

"It would be tragic," Mr. Pickle told the commissioner, "if it was thought that I.R.S. allowed the statute of limitations to run on this very serious charge about the original I.T.T. tax ruling."

In 1969, the revenue service issued its ruling seven days after International Telephone requested it. Now nine months have passed since the New York office, after an examination of the facts, asked the national office to reconsider the ruling with a view to revocation.

Mr. Pickle said in his letter, "This matter is entirely too serious to be tossed aside lightly. It appears there were misrepresentations made to the I.R.S., and serious questions still exist about possible White House involvement."

He previously asked the special Watergate prosecutor, Leon Jaworski, to look into possible White House pressure on the revenue service.

The revenue service, which is forbidden by law to discuss an individual tax case or a private ruling, would not comment or confirm published reports of the recommendations by the New York office.

The case began in 1968-69, when Harold S. Geneen, president of International Telephone, intent on capturing Hartford, authorized the purchase of 1,741,348 shares of Hartford stock to put pressure on Hartford's executives to agree to a merger. The move succeeded, but Hartford's shareholders still had to approve the merger.

To get their votes, International Telephone asked the revenue service for a ruling that

a profitable exchange of its shares for Hartford shares in the merger would not be subject to an immediate capital gains tax on Hartford's shareholders.

Such a tax-free exchange is permitted if the acquiring company unconditionally sells its stock in the company to be acquired prior to a vote on the latter's stockholders. International Telephone convinced the revenue service that a plan to dispose of its Hartford stock to Mediobanca, an Italian bank, would be an unconditional sale.

Unconditional Sales Needed

But critics have charged that the sale was not a genuine one because only one of the three options in the contract with the bank provided for an immediate cash outlay.

Under the option chosen by Mediobanca, the bank "resold" to International Telephone, along with accumulated dividends, and received in return \$2.1-million in fees. It shared the fees with Lazard Frères & Co., investment bankers who acted as International Telephone's agent and, under the contract controlled the timing of the resale. By thus delaying until 1970 the sale required to get the tax-free ruling, International Telephone made an estimated \$22-million.

International Telephone did not inform the revenue service that Mediobanca had immediately rejected the option providing for an unconditional sale, and it did not disclose the fee-splitting agreement between Lazard and Mediobanca. Had it done so, the revenue service would have known of the continuing interest International Telephone's agents had in the sale.

Revenue regulations require that an applicant for a private ruling must submit "a complete statement of all relevant facts."