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I.R.S. Cover-Up Charged On U.S. Favors for I.T.T.

Rep. Pickle, in Letter to Jaworski, Says Revenue Agency Refused to Divulge Tax Data on Disputed '69 Take-Over

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Washington, Feb. 25 -
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Representative J. J. Pickle has accused the Internal Revenue Service of playing a part in what he calls the "cover up" of Government favors" extended to the International Telephone and Telegraph Corporation.

In a letter last Tuesday to the special Watergate prosecutor, Leon Jaworski, Mr. Pickle, ranking Democrat of the House Commerce Subcommittee on Investigations charged that the revenue service "is refusing to divulge any information" on a controversial tax ruling in 1969. The ruling not only assured International Telephone's take-over of the Hartford Fire Insurance Company but also enabled the conglomerate to gain a large profit.

The subcommittee has been investigating all aspects of the merger.

Mr. Pickle charged that "for nearly one year" the national office of the tax agency had done "nothing with a recommendation [last April 17] from its New York office that the somewhat questionable, earlier ruling be revoked."

The Internal Revenue Service declined to comment on Mr. Pickle's letter to Mr. Jaworski and on another making the same charges to the Commissioner of Internal Revenue, Donald C. Alexander.

Ruling Appealed

However, the tax agency previously told Mr. Pickle that it would neither disclose the reasons for the recommendation of the New York district office, nor discuss any investigation as a result of it, nor make public "any final decision" reached.

Mr. Pickle told Mr. Jaworski that the revenue service, in refusing to give information, was extending to tax rulings the requirement of the law that tax returns be kept confidential.

The agency's interpretation has been successfully attacked in the United States District Court here under the Freedom of Information Act. Last June, Judge Aubrey E. Robinson Jr., held that rulings were not part of returns "but documents generated by the agency" and therefore subject to public disclosure. The tax agency has appealed the ruling.

Mr. Pickle concluded by asking Mr. Jaworski to investigate "for possible improper outside influence" in the original ruling and "for possible wrongful efforts to cover up this matter." Reminding the prosecutor that last Nov. 27 he had promised "to delve into all those areas of the I.T.&T.

"to delve into all those areas of the I.T.&T. case where impropriety existed," Mr. Pickle urged haste. The statute of limitations will run out April 15. In a letter to Mr. Jaworski last November, Mr Pickle suggested there had been "White House involvement" in the ruling.

The Texas Democrat attached to the letter to Mr. Jaworski another one written the same day to Commissioner Alexander. It said that "evidence mounts each day that Government favors were given to I.T.&T. on a quid pro quo basis," and asked "was your agency, and is your agency, part of this sad story?"

This was a reference to the purported pledge of $200,000 to $400,000 by I.T.&T. for the 1972 Republican National Convention. It came coincidentally with a settlement of an antitrust suit that allowed I.T.&T. to retain the Hartford Fire Insurance Company. It also referred to the fact that the Securities and Exchange Commission hastily removed some documents to keep them from Congressional committees. Those documents disclosed meetings that I.T.&T. officials had with administration officials.

"I would think," Mr. Pickle said, "that you would do everything in your power to remove the cloud hanging over the I.R.S. on this matter."

No Immediate Tax

The ruling was connected with the conglomerate's plan to effect a merger by an exchange of the corporation and Hartford shares. To get the required approval of Hartford shareholders, the conglomerate had a two-part strategy. First, it would give Hartford shareholders a 28 per cent premium on the exchange. Second, it would ask the Internal Revenue Service to rule that the exchange would not be subject to an immediate capital gains tax.

The tax code provides for such a tax-free exchange if the acquiring company "unconditionally" sells its own shares in the acquired company before the stockholders vote on the merger.

Before the vote, I.T.&T. had acquired 1,741,348 Hartford shares. An immediate sale of these, however, would have entailed a loss of about $3.2-million because the conglomerate paid above-market prices to obtain them.

Therefore the corporation arranged a transaction with Mediobanca, an Italian bank, under which the bank would "buy" the shares without putting up any money and "resell" them later when the price rose, remit the proceeds and dividends to I.T.&T. and collect a fee for its service.

$5.9-Million Profit

The tax agency took only seven days to approve this transaction as meeting the law's requirement for an immediate "unconditional" sale and to give the requested ruling. Many tax attorneys, including two former I.R.S. Commissioners who wish to remain anonymous, and also presumably lawyers in the New York district office, have regarded the transaction as a device to avoid the loss entailed in an immediate, unconditional sale by paying a "parking fee."

On Mediobanca's "resale," the timing of which was controlled by the conglomerate investment bankers, Lazard Freres, I.T.&T. made a profit of about $5.9-million after paying the bank a $2.1-million fee.