

fraud case might be brought against Mr. Nixon if it was established that he was aware of an intent on the part of those preparing his taxes to mislead the IRS.

Sources have told NEWSWEEK's Nicholas Horrock that at least two people who worked on Mr. Nixon's returns have been warned that they are subjects of the probe. As an IRS official says: "When a special agent shows up and reads you your rights, you've got trouble."

**Deed:** The key question is whether a fraudulent deed to Mr. Nixon's Vice Presidential papers was drawn up in the spring of 1970 to make it appear that he had actually given the papers to the archives one year earlier—before Congressional legislation outlawed deductions for such gifts. DeMarco has testified that he had a new deed typed up and had Morgan sign it on the President's behalf in April 1970, but he insists that

The President's personal interest in his tax returns seems beyond question. Former Nixon staffers have told NEWSWEEK that the President carefully instructed his onetime aide John Ehrlichman on what deductions he hoped to claim—and that Ehrlichman once sought technical advice on whether the President could deduct as a business expense the cost of his daughter Julie's personal appearances (Mr. Nixon was told not to try it). So far, however, there is no detailed account of the April 10 conversation in the Oval Office. DeMarco has refused to discuss his conversation with Mr. Nixon, claiming a lawyer-client relationship. But DeMarco's friends hint he might speak out if the pressure increases. "I can tell you one thing," said one friend. "If Frank has to go, he ain't going alone."

At the weekend, it remained unclear whether Mills was basing his prediction of a Presidential resignation on inside information. The joint committee's staff was scheduled to make its report this week or next; while insiders predicted that the staff would recommend disallowing the \$576,000 deduction for Mr. Nixon's donation of papers and assessing him upward of \$300,000 in added taxes, the staff would buck any question of criminal fraud to the IRS inquiry. The joint committee's formal report, including the IRS findings, was to follow in a month to six weeks. While Mills refused to be pinned down on specifics, he said he believed "very strongly" that President Nixon would and should resign, and that the reason would come out "in 30 to 40 days."

As similar disclosures have done in the past, the news of Mr. Nixon's tax problems triggered an angry response from the White House. Mills's disclosure, said a spokesman, was "a dirty, cheap shot by a person the President formerly considered a professional politician."

## Probing for Tax Fraud

The beleaguered White House faces yet another siege over President Nixon's personal finances. NEWSWEEK has learned that the Internal Revenue Service is conducting a criminal-fraud investigation of Mr. Nixon's 1969 income-tax return, and Rep. Wilbur Mills predicted last week that a forthcoming Congressional report on the President's taxes may force him to resign.

Mr. Nixon himself touched off the storm when he invited the Joint Committee on Internal Revenue Taxation to review his tax returns. The committee called in the IRS for technical help, and the tax agency—smarting over what its career men see as a record of political misuse by the Nixon Administration—responded with alacrity.

In recent weeks, IRS special intelligence agents, who do only criminal investigations, have interviewed Edward L. Morgan, a onetime White House aide, Arthur Blech, Mr. Nixon's personal accountant, and Frank DeMarco, the President's former tax lawyer. IRS spokesmen refuse to comment on the inquiry, and the White House says it has not been notified of a criminal investigation of the President. But the White House also says it has been cooperating with the IRS and that its lawyers know of "the possibility of irregularity." Press Secretary Ronald Ziegler told NEWSWEEK that the President was not involved. The problem, he said, "goes to the preparation of the documents, not to any action of the President." Tax experts say that a



DeMarco: The pressure was growing

the new version was only a copy of an original he drew up the year before. Still, no one has produced the alleged 1969 original, and one source close to the case told Horrock flatly: "There is no deed in existence that was actually prepared in 1969."

Mr. Nixon's personal role in the case is somewhat murky. White House spokesmen have long contended that the President leaves his tax returns to his lawyers and that he is simply "too busy" to worry about the details. But DeMarco reportedly told investigators that he and Herbert Kalmbach, the President's personal lawyer, met with Mr. Nixon for 30 minutes in the Oval Office on April 10, 1970. At the meeting, he said, they went over the President's tax return—which included the gift deduction and a supporting schedule—page by page.