

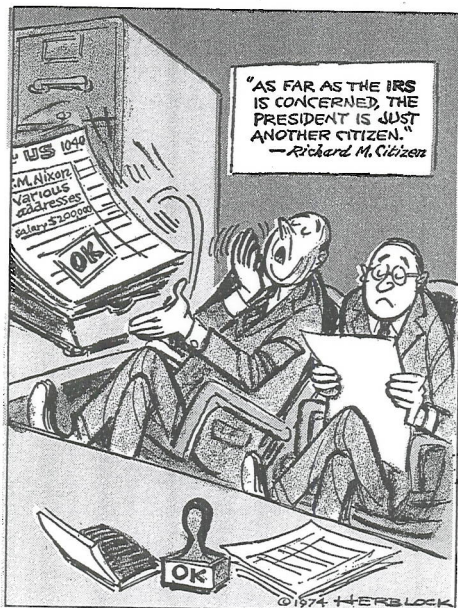
# The IRS: Four Years of Going Easy

How could the vaunted tax-hunting sleuths of the Internal Revenue Service originally miss errors of nearly half a million dollars in a taxpayer's returns over a four-year period—especially when the filer is as uniquely noticeable as the President of the United States? The embarrassed officials of the IRS have a handy shield against discussing such a gross oversight: the law that bans revelations about any taxpayer's situation unless court action is taken. But the conclusion is inescapable that Nixon benefited from his high office and that the IRS would never have moved to recover the tax loss if there had not been public revelations about the President's tax status from unofficial sources.

Regional IRS officials in Baltimore, who handle income tax returns for residents of Washington, D.C., apparently even nullified the faithfully unbiased warnings of their own computer in giving the President their original full approval of his taxes for 1970 and 1971. Some time in 1972 or early 1973 a computer that was programmed to detect returns that do not fit normal patterns kicked out the President's 1971 return. One reason presumably was the fact that although he had an income of \$200,000, he claimed deductions for gifts that nearly matched his entire tax liability. The computer flagging called for an audit, and after checking with Treasury Department superiors in Washington, the Baltimore office commendably notified Nixon that his 1970 and 1971 returns were being checked. When any question about one year's return is raised, the IRS routinely examines the previous year's return too.

What was not commendable, however, was that two agents assigned to the audit, Gervasio Percuoco and Raymond Kuschke of the Baltimore district's

Washington office, took only eight days for what should have been a highly complex and much longer study. There is no indication that they asked the President or his lawyers for any documents or statements to support his tax claims. They passed their approval along to the



"Ho hum—just another citizen taking a write-off on \$576,000 in assorted papers, with a little back-dating on the deed."

Baltimore IRS headquarters. William D. Waters, then the district director, notified Nixon last June that his returns had been "accepted as filed." Waters apparently did not examine Nixon's filings himself, but he added a line that he must now regret—a routine compliment when an audit is completed without the discovery of taxpayer liability. He commended the President for "the care shown in the preparation of your re-

turn." Waters was promoted in March to head the larger Philadelphia IRS office.

Many press stories about the President's questionable financing of his San Clemente property and lavish Government-paid improvements to his private facilities there and in Key Biscayne should have alerted the IRS that his returns rated a new and sharper scrutiny. In the fall of 1973, an IRS employee decided on his own that the public ought to know about the amazingly low taxes paid by the President and leaked the figures for 1970 and 1971 to the *Providence Journal-Bulletin*. (This employee has never been publicly identified, but he apparently worked at the service's national computer center in Martinsburg, W. Va.)

When the newspaper printed the figures, the leaker was traced by an IRS investigator, Agent William J. Schaefer. The agent was given an award for "noteworthy contributions to the effectiveness and efficiency of the Department of the Treasury." The employee, on the other hand, was threatened with dismissal from the service and quit under this pressure. He was not, however, prosecuted for disclosure of the information, which is a misdemeanor.

Last December, Nixon in response released portions of his tax returns for 1969 through 1972, causing many tax experts to publicly question some of the deductions. The President then asked the Congressional Joint Committee on Internal Revenue Taxation to study two of his most controversial tax entries. With that study under way, the IRS finally moved and announced on Jan. 2 that it, too, was going to re-examine Nixon's returns for 1969, 1970, 1971 and 1972. Working closely with the congressional staff investigators, apparently the IRS finally treated the President as it would another taxpayer in the same situation.