

IRS Reportedly Drops

Nixon Friend's Tax Case

San Diego

The Internal Revenue Service has withdrawn from a federal grand jury's criminal investigation of C. Arnholt Smith and has notified the long-time friend of President Nixon that it will not prosecute him on charges of income tax fraud, according to informed sources.

The reasons behind the belated IRS decision, following three years of intensive investigation by a force of up to 15 Internal Revenue and FBI agents, remain obscure.

An IRS source in Washington said the agency is stepping aside in deference to other elements of the Smith criminal investigation, including the Securities and Exchange Commission, the Federal Deposit Insurance Corporation, the comptroller of the currency, and the Justice Department. He said the decision was prompted

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by the Justice Department.

On instructions from Washington, the tax agency's district counsel was understood to have taken back testimony and documentary evidence already given to the grand jury that has been in session here nearly a year, delving into Smith's tangled finances and the collapse of his \$1.5 billion banking and industrial empire.

Instead of seeking his indictment on criminal charges, the IRS will now concentrate on negotiating a civil settlement of its \$22.8 million jeopardy assessment for unpaid 1969 personal income taxes that it levied last August 3.

The \$22.8 million claim, largest tax lien ever brought against an individual for a single year, had been held in abeyance pending the grand jury's action on criminal indictments.

Thomas Sheridan, a chief

tax attorney for Smith, said he had received notification from the IRS regional counsel's office in Los Angeles stating that the tax agency would not prosecute his client for criminal tax evasion.

The brief letter did not go into the reasons for the decision, Sheridan added.

Richard Trattner, a former IRS agent and one of a battery of Smith tax attorneys at the time of the IRS notification, was asked whether pressure was brought to bear by Smith and his lawyers to quash the IRS criminal action.

"Yes, at every opportunity, at the regional level and in Washington, and the government evidently came around to agreeing with us that any basis for criminal tax action was very flimsy indeed," he said.

To what extent, if any, the IRS about-face will affect the government's over-all criminal case against Smith and several business associates was unclear.

IRS officials said withdrawal of the IRS tax fraud evidence had neither weakened the government's case nor hampered the work of the grand jury.

"This is a multi-faceted and quite complicated investigation and the IRS evidence, in a sense, has been a separate matter from the main line of evidence," a spokesman said.

This was disputed by a Smith associate who claimed "the government's hopes of convincing Smith had rested largely on the IRS case.

The main line of evidence referred to by the spokesman has dealt with "massive frauds" charged to Smith and several others in the near collapse of his Westgate-California Corp. and its 39 subsidiaries, and the failure, last October 13, of the Smith-controlled United States National Bank.

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