

## Taxes on Gifts Considered

# New IRS Probe of

### Washington

Big-money contributors to both major parties are targets of a new nationwide scrutiny by the Internal Revenue Service to determine whether they should pay gift taxes on their political donations.

One source, intimately familiar with the investigation, said a rough estimate of potential gift tax revenue from the probe would be from \$3 million to \$5 million.

An IRS spokesman said some gift tax assessments already have been levied but he would not divulge any details on individual cases.

The investigation, officially termed an "examination program," specifically is aimed at contributions to former President Nixon's re-election campaign in 1972 and to the Democratic presidential campaigns of Senators George S. McGovern, Hubert H. Humphrey and Edmund S. Muskie.

The investigation is focused on large contributions which were made in increments of \$3000 or less to avoid the gift tax.

The IRS effort comes after a federal trial court ruled the agency has been wrong in the way it was permitted big contributors to escape gift taxes in the past, and Congress stepped into the issue by deciding that, from now on, political contributions will not be considered gifts for tax purposes.

Scores of IRS auditors have been combing contribution reports and evidence, some of it obtained in the Watergate investigations,

Watergate investigations, and have been questioning contributors and fund-raisers.

Republicans and Democrats alike who have been questioned by the IRS agents have expressed puzzlement why the agency is conducting an investigation at this time.

One Republican critic said it was an attempt by the IRS

to "rake over the Watergate ashes."

California Democratic National Committeeman Marvin Shapiro, a major force in the McGovern campaign fund-raising effort, was more outspoken.

He contended the new drive is an attempt by the IRS "belatedly to show how pure it is, after all the criticism it has received about being used for political purposes by the Nixon adminis-

tration."

"What it really boils down to now is whether IRS will stick by its past ruling or will the agency try retroactively to screw someone."

Shapiro is attorney for Max Palevsky, a major giver to Democratic causes and a contributor of \$300,000 to the 1972 McGovern effort.

Palevsky is just one of hundreds of contributors in the 1972 presidential campaigns who are being questioned now about the manner in which they contributed.

IRS Commissioner Donald C. Alexander declined direct comment on the investigation or its timing.

The new probe runs all the way from relatively small donors all the way up to W. Clement Stone, the Illinois insurance executive who reported giving Mr. Nixon's campaign \$2 million.

The amount of gift taxes involved in the investigation is not inconsiderable. The sliding scale levy on gifts from \$5000 to \$10,000 is \$112.50 plus 5¼ per cent of everything over \$5000 and runs up the scale to a tax on gifts between \$250,000 and \$500,000 of \$49,275 plus 24 per cent of everything over \$250,000.

The whole area of big-money political contributions has been exceedingly touchy with IRS.

According to its own official documents, "Since the enactment of the gift tax law in 1932, it has been the

position of the service that contributions to a political campaign are taxable transfers for purposes of the gift tax."

"Any individual who makes a contribution in excess of \$3000 in any calendar year to a political candidate, party or organization is subject to the gift tax filing requirements."

But over the years, as campaigns became more costly and contributions became much larger, IRS never came to grips with the stratagem worked out by fund-raisers of both parties — to make a \$60,000 contribution, say, in the form of 20 checks for \$3000 each.

Professional fund-raisers, acting on advice of their lawyers, developed the prac-

## Campaign Money

tice of advising big contributors that the way to obviate any question of gift tax assessment on the donor was to make a lot of \$3000 gifts, even if all for the same purpose.

The reason for the \$3000 checks is that gifts up to \$3000 a year are not taxable. Beyond that, the overage is applicable to the \$30,000 lifetime gift exemption each person enjoys. Most if not all of the big political donors long since have utilized their \$30,000 lifetime exemption.

With the IRS acceptance of the multiple \$3000 check subterfuge reasonably assured, the political pros of both parties confidently set up a wide range of committees to accept contributions.

It is the formation of these

committees, by the Nixon, as well as the McGovern, Humphrey, Muskie and other campaigns, that IRS auditors are investigating now.

If the committees were real, if they had separate identities and separate officers and separate purposes, then presumably the IRS will continue to hold that Stone, for example, did not give \$2 million in 1972, he just wrote a lot of \$3000 checks.

But if the committees turn out to be shams, then presumably someone owes some gift tax — and that apparently means the donor, who has primary responsibility under the law as it was then.

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