

Tax Problem in Watergate Case

Washington

Is the \$449,000 in secret payments channeled to the Watergate defendants taxable? If so, who should pay the taxes?

Private tax accounts and lawyers here generally agree that someone should be held liable, but caution that the facts surrounding Watergate are too cloudy to permit specific fingerprinting.

The Internal Revenue Service refused officially to discuss the case. But a spokesman said that, "hypothetically speaking," any money, whether given as compensation for services or presented as a gift, generally is subject to taxation.

Herbert W. Kalmbach, President Nixon's personal attorney, testified last week before the Senate Watergate committee that he helped raise and distribute \$219,000 through a number of conduits to provide for legal fees and other relief for the families of convicted Watergate conspirators.

Another \$230,000 was delivered to the defendants by Frederick C. LaRue.

Former White House counsel John W. Dean III has testified before the committee that the money was used to buy the silence of the conspirators about the involvement of other persons in the Watergate affair.

By either theory the money is taxable, attorneys and accounts say.

If it was given out of "disinterested beneficence" with no expectation of a return favor, the money is technically a gift, said one

attorney who asked that his name not be used. The donor must pay taxes on any amount above \$3000 given in the taxable year.

"And if the money was given as payment for the recipient to do something or not to do something," the attorney said, "then it's taxable as regular income to the recipient for services rendered."

QUESTION

An underlying question in determining tax liability in the Watergate money is: Where did the \$219,000 originate and what was the relationship of the giver to the ultimate receivers?

Kalmbach has testified that Maurice Stans, former chairman of the Finance Committee to Re-elect the President, gave him \$75,100 in campaign funds and that another \$75,000 came from Thomas V. Jones, board chairman of the Northrup Corp. in California.

Re-election committee spokesman Devan Shumway said that the \$75,100 was a "totally unauthorized expenditure" of committee funds and that no tax returns were filed by committee on the money.

"So the answer is no," Shumway said in response to an inquiry about whether the committee filed any tax returns on the money.

"If any of the money went through the committee," said former IRS Commissioner Sheldon S. Cohen, "then it's their responsibility to report it on W-2 (employee) forms or 1099 (consultant) forms. Willful failure to do so is a crime."

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