## Hughes Medical Institute

By Morton Mintz Washington Post Staff Writer

The Howard Hughes Medigive it a tax break of at least liam Gay. \$36 million annually.

The effort was a secret be-tween the institute and the Internal Revenue Service until last April, when its disclosure stunned Rep. Wright Patman (D-Tex.), Capitol Hill's foremost expert on foundations.

One reason for his surprise was that what the institute is trying to do is discard the status as an exempt foundation it was able to win in the 1950s only over IRS opposition. The agency gave up after billio-naire recluse Howard R. Hughes made a partially unsecured loan of \$205,000 to a prother of then Vice President Richard M. Nixon.

For almost 21 weeks, Patman has been trying to get Treasury Secretary George P. Shultz to provide detailed information that could disclose whether the White House or other political factors may have intruded in the pending

Hughes case.
In a final letter on Oct. 15, Patman told Shultz that his tailure to respond "can only be interpreted as another indication of the lack of independence and the politicization of the Internal Revenue Serv-ice."

Treasury's long failure to rule on the institute's contest of its foundation status upsets Patman for another reason. Had the institute been classified as a foundation during the three years the case has been pending, it would have had to pay out for charitable purposes a minimum of \$36 million a year for a total of

\$108 million. The institute would get the tax break it wants if the IRS agrees that it is a medical research organization and legally a charity, in the same category as a church.

Institute counsel Seymour S. Mintz explained the claim of charity status in testimony to Patman's House Domestic Subcommittee April 5.

Almost throughout its history, the institute "has conducted its medical research itself directly and continuously and not through other agencies," Mintz testified.

Consequently he contended, the institute is treated by the Tax Reform Act of 1969 "the same as it treats schools, churches, and hospitals and exempts it from the private foundation status."

Mintz said the Hughes researchers, among other accomplishments, initiated programs for transplantation of kidneys and for kidney dialysis.

The institute said that in 1971 its "medical research and related expenditures" totaled \$1,258,682. The figure included administrative expenses.

Howard Hughes is sole trustee of the institute, which is based in Miami, Fla. Its execu-

three men close to him: Chester S. Davis, a lawyer for Summa Corp., which of cal Institute has been trying Hughes is sole owner; and two for three years to persuade top Summa executives, Raythe Treasury Department to mond M. Holliday and F. Wil-

Hughes not only appoints members of the executive committee, but also has "full power to remove them," Mintz acknowledged at the subcommittee hearing.

Hughes at the same time is president of Hughes Aircraft Co. Its stock is 100 per cent owned by the institute.

The institute's income, about \$2.5 million annually, comes almost entirely from Hughes Aircraft. The company gets back about \$1 million a year from the institute in interest gan to document a growing earlier, then Attorney General on a note.

These relationships suggested to Patman and subcommittee members that dealings between the institute and the company in reality are dealings between Howard Hughes and Howard Hughes.

In an exchange with inthe note, which bears the foundations. extraordinarily low interest But, Capitol Hill sources Sen. Smathers.

R. Blackburn (R.-Ga.) said, campaign by former Sen.

"you mean Mr. Hughes, the George Smathers (D-Fla.) led the Senate Finance Committee the Las Vegas strip. "you mean Mr. Hughes, the George Smathers (D-Fla.) led thustee, has never felt that the Senate Finance Committee and ultimately Congress aptives, ought to be hamstrung parently to exclude medical mainly, the Hughes institute.

Hughes?"

"was a friend of all three, Richard G. Danner, a Hughes aide the Las Vegas strip.

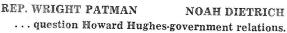
Rebozo has told Senate Watergate committee investigators that he kept the currency for about three years in

by Mintz "conservatively" at in which Howard Hughes made a secret payment of \$50,000 in lion for charity, or more that lion for charity, or more than double the 1971 outlay. However, subcommittee staff

members estimate the true market value of the stock at between \$600 million and \$1 billion. Consequently billion. Consequently, they say, if IRS classifies the institute a foundation, its contribution to charity will have to be between \$36 million and \$60 million.

In the era when the Hughes Medical Institute won tax-exempt status, foundations tee of the institute, which is based in Miami, Fla. Its executive committee is composed of Patman's subcommittee be-





expense.

abuses. And, as approved by the House, it would have In an exchange with in-brought the Hughes institute stitute counsel Mintz about under the provisions for

money Mr. Hughes owes Mr. Hughes?"

The Tax Reform Act of 1969 prohibits "self-dealing" between an exempt foundation and its principal donors and managers.

If the institute is a charity, on the other hand, "you wouldn't have any restrictions of any kind, would you?" Rep. Patman asked lawyer Mintz.

Mainly, the Hughes institute.

However, the IRS then threatened an administrative end-run around the Smathers exclusion. The agency tried to reach the Hughes institute and similar organizations, if plained, had become an embarrassment.

Also while Treasury had before it the Hughes institute's contest of its foundation status, Hughes contributed an administrative funded the \$10,000 to Hughes lawyer Davis several months ago. Retention of the money, Rebozo is said to have explained, had become an embarrassment.

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The draft rule would require tus, hughes contributed an auditional \$150,000 to the Finance Committee to Re-elect assets, compared to the 6 per The institute's application of the president.

finally overwhelming John N. Mitchell removed obcatalogue of abuses commit-stacles placed by the Justice ted by foundations at taxpay- Department's Antitrust Divi-The Tax Reform Act of 1969 by Hughes to acquire a casino-was designed to attack the hotel on the Las Vegas strip.

as approved by it would have Hughes institute provisions for Rebozo, a close rriend of the President as well as former of Hill sources of the Eas vegas strip.

The \$50,000, like an additional \$50,000 in cash in 1969, was handed to C. G. (Bebe) Rebozo, a close rriend of the President as well as former of the President as well as former of the President as well as former of the Eas vegas strip.

The draft rule would require tus, Hughes contributed an ad-

That, Mintz said, is "legally true."

The 1969 law requires a foundation to distribute to charity either its annual adjusted net income, or 6 per cent of the fair market value of its assets, whichever is greater.

For the institute, the choice would be between giving away income of a bout \$1.5 million or 6 per cent of the Hughes Aircraft stock. This is valued by Mintz "conservatively" at the IRS has neither adopted nor rejected it.

To counter the threat posed by the 4 per cent rule, the institute—unbeknownst to the subcommittee or anyone else—asked IRS to remove it from the final regulations adopted last year, remains in a "reserved" status, meaning adopted nor rejected it.

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The IRS denied the applicaa secret payment of \$50,000 in currency, purportedly as a campaign contribution for Richard Nixon or congressional candidates. A few weeks a split of a part of a taxable

business into a separate operating entity." The taxable business was Hughes Aircraft cer for 32 years until he quit the institute.

What was the purpose of the split "Siphoning off taxable income into an exempt organization," the IRS said in a letter to the institute.

tion and granted the institute an exemption.

Noah Dietrich, who tween the Ioan and the IRS ac-

Dietrich said he warned the

The taxable Hughes' chief executive offi- "it could mean the end of your man would have "a further

Vice President that if the loan sistant to the secretary, re- Treasury's response.

was becomes public information, sponded on June 4 that Patpolitical career. And I don't response . . . as promptly as Co., which gave its stock to in 1957, raised the question of the institute.

What was the purpose of the a cause-effect relation be
What was the purpose of the purpose of the cause-effect relation beuiet."

1, Patman sent Shultz a copy
Dietrich said that Mr. Nixon of his first letter along with tween the Ioan and the IRS action in his 1972 paperback, saying, "I have to put my rel"Howard: The Amazing Mr. atives ahead of my career."

The White House has failed followed up with his letter atong with responded immediately by a request for the secretary's "reasons for the four-month delay." Two weeks later, he followed up with his letter

The institute protested the IRS denial of tax-exempt status in March, 1956. The following December, a month after then Vice President Nixon was reelected, Hughes Tool Co., predecessor to Summa Corp., loaned \$205,000 to his brother, Donald Nixon. The collateral was worth only \$93,000.

Three months later, on March 1, 1957, the IRS reversed itself without explanation and granted the institute

Hughes."

Dietrich termed the IRS reversed the IRS reversal "curious," and asked: "to respond to repeated efforts to elicit comment on Dietrich's account.

Nor has Rep. Patman had better luck in getting Treasfour days after Patman's third ury to respond to his inquiries, which have not been publicly reported up to now.

Patman wrote Treasury patman should have responses "in a couple of days." On the same day, Treasury gave Patman has still not received patman has still not received.

William L. Gifford, an as-

contention that it is a charity. apologized for the delay. William L. Gifford, an as-Patman has still not received