

## Political Gifts Charged

# Financier Smith's Record Tax Case

## IRS Says \$24 Million Unreported

### San Diego

Financier C. Arnholt Smith failed to report \$24.4 million of taxable income in his 1969 tax returns, according to Internal Revenue Service allegations that have just surfaced in federal tax court.

The unreported income included \$57,216 in corporate funds "diverted" into political campaign donations, the IRS contends.

The IRS also claims that Smith took millions of dollars in money, checks, cars and other valuables from corporations in which he held controlling stock interests — including the now-defunct U.S. National Bank and the San Diego Padres baseball team — but did not include them in his 1969 income tax return.

In all, the agency said, Smith's actual taxable income for that year was \$24,823,641 — whereas he reported only \$411,524.

### FILE

The figures are contained in documents now on file in U.S. Tax Court in Washington.

The IRS filed a \$22.8 million civil tax assessment against Smith on August 2. It was the largest income tax claim ever made against an individual for a single year, the IRS said.

However, the details remained secret until Smith filed a petition contesting the assessment in tax court.

Meanwhile, it was revealed that U.S. National Bank records wanted for a criminal investigation have been uncovered and seized by the FBI at Smith's offices, outside bank premises on a different floor in the USNB building in San Diego.

The records had been turned over to the Federal Deposit Insurance Corp., which was named receiver

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when the U.S. comptroller of the currency declared the Bank insolvent October 18.

### WARRANT

Taken by federal agents bearing a search warrant, the records were working files of the bank's international banking department. Documents now on file in U.S. District Court state that most of the records involved more than 90 million in letters of credit issued by USNB to back up loans by foreign banks to Smith-related entities.

In his petition to the tax court, Smith said postponement of the civil tax dispute is necessary to prevent the government from obtaining evidence that might be used against him in a possible criminal prosecution.

The IRS notice of deficiency was attached as an exhibit to the petition filed November 9. The Los Angeles Times obtained copies yesterday.

In its notice of deficiency, the IRS did not say to whose political campaigns the allegedly diverted corporate funds were paid.

Federal law prohibits payments of corporate funds to campaigns for federal office.

### INSTANCES

Included in the IRS deficiency notice were these instances of alleged taxable income not stated by Smith:

- Two publicly owned corporations controlled by Smith, U.S. National and Watergate-California Corp., paid \$129,536 in "unreasonable and unnecessary service fees and rental income" to U.S. Holding Co., a private corporation owned by Smith, his former wife and his daughter. These fees and rent payments then went to Smith in the form of loans from U.S. Holding. 1/8.

- U.S. Holding paid \$67,458 in life insurance premiums for Smith.

- Westgate transferred assets to other Smith corporations, and the assets were mortgaged for \$24,265,000 to provide funds for still other corporations dominated by Smith. The IRS claimed that 5 per cent of this total, or \$1,213,250, was taxable benefits to Smith.

- Smith pledged Westgate assets as collateral for \$23,480,636 in loans. The money was never given to Westgate or its subsidiaries and was not reflected on their books. Therefore, the total amount was attributed

as income to Smith. The IRS gave no indication of what it believes happened to the money.

- Smith's daughter, Carol Smith Shannon, received salaries and benefits — including the use of luxury cars — from Smith-controlled companies, "although she rendered no service" to the firms. Therefore, the benefits were cited as taxable to Smith.

The salaries to Mrs. Shannon were listed as \$8650 from the Padres, \$9000 from U.S. Holding and \$19,000 from Underwriters Insurance Co. In addition, she received the use of a new Cadillac Fleetwood, a three-year-old Fleetwood and a three-year-old Jaguar. The IRS valued the use of the car that year as \$5500.

U.S. Holding made a six-month loan of \$130,000 to Mrs. Shannon, and the IRS charged the equivalent of 6 per cent interest or \$3900 as income to Smith.

- Smith diverted rental income from a property listed as Casa de Lopez, owned by U.S. Holding, to his former personal secretary, Shirley J. Carter. The rental income of \$13,247 was charged to Smith as income by the IRS.

- Smith charged \$69,012 in expenses to various corporations he controlled and which employed him as an executive, but did not submit supporting accounting information to these corporations. Therefore, the IRS counted the sum as income for Smith.

In his petition, Smith denied each of the IRS contentions. He also asserted that the statute of limitations had run out on many 1969 alleged deficiencies. His petition also said the IRS determination of the alleged deficiency was "illegal in that it was made arbitrarily and capriciously."

Los Angeles Times