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Tax Ruling Revoked In Big ITT Merger

By Morton Mintz
Washington Post Staff Writer

The Internal Revenue Service yesterday revoked a controversial tax ruling that cleared the way in 1969 for International Telephone and Telegraph Corp. to acquire Hartford Fire Insurance Co.—the largest merger in American history—by allowing for a tax-free exchange of shares.

The rare IRS action was announced in New York by ITT, which immediately requested domestic stock exchanges to suspend trading in its stock until further notice.

The IRS action—taken less than six weeks before the statute of limitations was to expire—has jarring implications for ITT, which ranked ninth among industrial corporations in sales in 1972.

Stockholders became liable for deferred capital gains taxes of about $100 million, unless the revocation is successfully challenged in the courts, according to Reuben Robertson III, a Ralph Nader aide who had asked the IRS in April, 1972, to revoke the ruling.

However, the exchange of Hartford shares worth about $1 billion for ITT shares was accomplished with what Rep. Jake Pickle (D-Tex.), another persistent critic of the ruling, has called "extreme misrepresentation." If he is correct, experts say, stockholders could sue ITT for reimbursement. One group of Hartford stockholders is already litigating and is asking federal court in New York to unscramble the merger.

HAROLD S. GENEEN
. . . ITT chief executive

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ITT said that it was in "complete disagreement" with the revocation, that it would promptly seek a court review, and that it expected to be sustained.

The company also said the ruling "will not affect the Hartford acquisition." Pickle said the effects of the IRS action on the merger are a matter of "pure speculation."

The revocation may trigger new congressional inquiries into how, in less than a week, ITT got a ruling that survived for two years in the face of a recommendation for reconsideration made a year ago by the IRS district office in New York and persistent attacks by such critics as Pickle and Robertson.

For ITT's chief executive officer, Harold S. Geneen, the revocation comes at a time when he is reportedly already a target of a bitter power struggle within the giant multinational firm.

Moreover, the office of the Watergate special prosecutor is known to be on the brink of obtaining indictments in connection with intervention by high Nixon administration officials to settle antitrust cases against ITT so as to preserve the ITT-Hartford merger.

Yesterday's IRS action was believed to be unrelated to the impending indictments, which are expected to involve a pledge by ITT of up to $400,000 for the 1972 Republican National Convention.

As part of the settlement, which was reached with the Justice Department on July 31, 1971, ITT consented to spin off Avis Rent-a-Car, of which it is a 52 per cent owner. Yesterday, the New York Stock Exchange said it had suspended trading in Avis—which emphasized that the ruling did not directly concern it—as well as ITT.

ITT common at the moment of suspension was selling for $27.875 a share, down from the Tuesday close of $28. The high during 1973-74 was $60.375.

The IRS refused to go beyond the revocation, saying that it never discusses either its private rulings or their withdrawal, which in this case is retroactive.

The ruling, which was made by the agency's national office here in October, 1969, was described by Pickle yesterday as "an example of laundering stock in a foreign country without full disclosure so that a tax liability could be avoided."

The ruling involved a block of 1,741,348 shares in Hartford that ITT proposed to sell to Mediobana, an Italian bank, before Hartford stockholders were to vote on the merger. The IRS ruling served as an inducement to Hartford stockholders to vote for the merger, because—if the sale were in fact genuine—they would be freed from capital gains taxation.

The issue turned on whether the sale to Mediobanca was "unconditional," as required by law for the capital-gains advantage to be realized, and as ITT claimed.

The Securities and Exchange Commission has never regarded the sale to Mediobanca as genuine. The New York office of the IRS was understood to have advised Washington last year that disclosure to stockholders and possibly to the IRS had been "inadequate."