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I.R.S. Revokes 1969 I.T.T. Tax Ruling That Led to Hartford Fire Co. Merger

Action Could Be Costly to Holders of Stock

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WASHINGTON, March 6—The Internal Revenue Service revoked today a tax ruling it gave the International Telephone and Telegraph Corporation in 1969 that enabled the multinational conglomerate to acquire the Hartford Fire Insurance Company a year later in the largest corporate merger in the nation's history.

The revocation of the ruling, which is retroactive, could cost shareholders who exchanged their shares of Hartford stock for I.T.T. stock an estimated $35-million to $100-million in capital gains taxes that had been deferred under the ruling.

The $1.5-billion Hartford Fire acquisition had long been planned by I.T.T.'s president, Harold S. Geneen, and he regarded the prize as the crown of the conglomerate empire he has put together in the last 15 years.

Revocation of the ruling was announced by I.T.T. today in New York, and subsequently confirmed by the Revenue Service in Washington. Neither made any immediate comment.

United Press International
Harold S. Geneen

I.T.T. said later that it was in "complete disagreement" with the action of the I.R.S. and that it would appeal the revocation in court.

In response to inquiries, it also said that it was satisfied that the revocation of the ruling would not affect the Hartford acquisition.

Tax regulations provide for revocation of a ruling if the

Conglomerate to Appeal Retroactive Move

I.R.S. decides that the original ruling was "in error" or "not in accord with the current views of the service."

However, tax lawyers pointed out here today that it was not usual for the I.R.S. to revoke a ruling retroactively, as it did today, unless it discovered that the taxpayer requesting the ruling had misstated or omitted "material facts" in its application, or unless facts subsequently developed by the I.R.S. proved to be "materially different" from the facts on which the ruling was based.

These lawyers said, further, that there was precedent for retroactive revocation of a ruling, but no precedent in such a massive case affecting so many stockholders in a merger.

Last April 17, the New York district office of the I.R.S. had recommended to the service's headquarters that the 1969 tax ruling, long a matter of controversy among tax lawyers, be revoked.

In the last three months,

Continued on Page 54, Column 1

Continued From Page 1, Col. 3

Representative J. J. Pickle, of Texas, who is the ranking Democrat of the investigations subcommittee of the House Commerce Committee, has been pressing Donald C. Alexander, I.R.S. Commissioner, to act on the New York office's recommendation. Mr. Pickle pointed out to Mr. Alexander that, unless the service acted by April 15, the statute of limitations would run out on the original ruling and no recovery of taxes would be possible.

Mr. Pickle asserted to Mr. Alexander that there was material in the files of the Securities and Exchange Commission that cast doubt on the legality of the 1969 ruling, and he raised the question as to whether the ruling had been made under White House pressure.

Mr. Pickle also asked Leon Jaworski, the special Watergate prosecutor, to look into circumstances surrounding the ruling and the possibility of political pressure on the I.R.S. Mr. Jaworki replied that he would do so. Mr. Pickle also asked the Congressional Joint Committee on Internal Revenue Taxation to look into the matter, and the committee is doing so.

'Favoritism Has No Place'

Today Mr. Pickle said:

"For months I have maintained that I.T.T. had not met the conditions of a 1969 I.R.S. tax ruling. The decision to revoke the ruling is one more step in restoring our people's faith in government. Favoritism has no place in our government processes."

Reuben B. Robertson, a lawyer associated with Ralph Nader, the consumer advocate, who unsuccessfully waged battles in state and Federal courts to prevent the merger, said:

"It must now be disclosed how I.T.T managed to get this illegal ruling in the first place and what was the role of White House pressure on the I.R.S. We believe full Congressional hearings should now be held on this case."

I.T.T. said in its announcement that it had asked all domestic stock exchanges to suspend trading in the company's stock until further notice. The New York Stock Exchange announced suspension of trading in I.T.T. stock and its subsidiary, Avis, Inc.

I.T.T. said it would have a further statement when it was told the reasons behind the revocation. Last April, when I.T.T. announced that the New York office of the I.R.S. had recommended revocatino, it said that a reversal of the ruling would result in a one-time charge "that would not be material to the ability of I.T.T. to continue its growth in sales and earnings." This statement was reaffirmed by a company spokesman today.

Unless charges of fraud are later brought by the Government and sustained in court action, it is thought unlikely that revocation of the tax ruling would not threaten the merger itself. The merger was finally approved by the Justice Department in a consent decree in July, 1971,—after the actual merger, and after the Government had brought suit to require I.T.T. to divest itself of Hartford and two other acquisitions.

The 1969 tax ruling was an integral part of I.T.T.'s strategy for the Hartford take-over. To get the necessary approval of Hartford shareholders, I.T.T. had devised a two-pronced plan.

First, it would give Hartford shareholders a 28 per cent premium on the exchange of I.T.T. for Hartford stock. Second, it would ask the I.R.S. to rule the exchange not subject to immediate capital gains taxes.

The Tax Code provides for such a tax-free exchange on condition that the acquiring company "unconditionally" sell its own shares in the company to be acquired before the stockholders vote on the merger.

To pressure Hartford executives into agreeing to the merger, I.T.T. had bought 1,741,348 Hartford shares, 8 per cent of the outstanding stock. I.T.T. had paid prices often substantially above the going market price to acquire these shares, and an immediate sale to satisfy the law would have entailed a loss of about $3.2-million.