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I.T.T. Calls I.R.S. 'Wrong'; Stock Is Off More Than $3

Allegations Denied

By E. W. KENWORTHY

Special to The New York Times

WASHINGTON, March 7—The International Telephone and Telegraph Corporation said today that the Internal Revenue Service was "totally wrong" in the reasons given for its revocation yesterday of a 1969 tax ruling that facilitated I.T.T.'s take-over of the Hartford Fire Insurance Company in 1970.

In revoking the ruling yesterday, the Washington headquarters of the I.R.S. acted on an April 17 recommendation of its New York district office. The announcement of the revocation came from I.T.T. in New York, which also said that the I.R.S. had delivered to the multinational corporation an 110-page document setting forth the reasons for the revocation.

I.R.S. spokesmen here confirmed yesterday both the revocation and the attendant document supporting it, but beyond that would make no comment.

Statement Is Issued

Today, I.T.T. in New York issued the following statement:

"The I.R.S. found that the sale [of Hartford shares owned by I.T.T. prior to a vote by Hartford shareholders on the merger] did not meet its understanding of the requirements for this type of reorganization [merger], and that there were alleged deficiencies in the rul-

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Issue Tops Active List

By ROBERT J. COLE

Nervous stockholders, reacting to an unfavorable tax ruling against the International Telephone and Telegraph Corporation, pushed down the price of the giant conglomerate's stock yesterday by more than $3 a share.

The paper loss to I.T.T. stockholders for the day, based on 124.1-million shares outstanding, was almost $388-million.

Trading volume of 298,400 shares made I.T.T. the most active stock on the New York Stock Exchange.

As an indication of market sentiment, three large blocks changed hands during the day, which suggests that there was institutional activity. The largest was 50,000 shares, which moved at 24⅝. There was also a 15,000-share block at the same price, and a block of 18,000 shares at 25.

One major New York bank estimated the action by the Internal Revenue Service Wednesday—reversing its 1969 ruling on the I.T.T.-Hartford Fire Company merger—could cost I.T.T. some $60-million, or the equivalent in I.T.T.'s earnings of 30 cents a share. An official of the bank maintained that I.T.T. "could absorb it without a lot of trouble."

An I.T.T. spokesman said the $60-million estimate was "awfully high." The company itself estimates the figure at around $35-million.

Trading in I.T.T. opened here at 11:25 A.M., an hour and 25 minutes late, because of the accumulation of buy and sell orders. Trading had been halted Wednesday afternoon in anticipation of the I.R.S. move.

The opening trade was at 25¼, down 2⅝. A few minutes later, the stock rose to 25⅜, but a 1973-74 low of 24⅝ was set about two minutes before the close

Moving to assure the 17,000 stockholders of record who turned in their Hartford Fire shares for I.T.T. shares at the time of the merger, I.T.T. announced late yesterday that former Hartford Fire shareholders would not be "financially penalized" by the I.R.S. reversal.

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ing request submitted by I.T.T. in connection with the Mediobanca transaction. I.T.T. vigorously maintains that the I.R.S. is totally wrong on both counts."

The ruling, long a matter of controversy in the tax community, exempted the 17,000 Hartford shareholders from an immediate capital gains tax on an exchange of their stock for I.T.T. stock.

I.T.T. wanted such a ruling to entice the votes of Hartford shareholders for the proposed merger. Without the ruling, I.T.T. would probably have had to pay the Hartford shareholders even more than the 28 per cent premium that was actually offered. With it, I.T.T. secured the votes of more than 99 per cent of the Hartford shareholders for the merger.

Tax law provides for such an immediate tax-free exchange on condition that the acquiring company sells "unconditionally to an unrelated third party" the stock it has in the company to be acquired prior to the vote of the stockholders on the merger.

Hartford Stock Acquired

I.T.T. had acquired 1,741,248 shares of Hartford in order to pressure the insurance company to agree to the merger.

In applying for a tax-free exchange ruling, I.T.T. submitted to the I.R.S. a contract negotiated with Mediobanca, a bank of Milan, Italy, under which the bank would "buy" the Hartford shares without putting up any cash, and upon their "resale"—at a time controlled by Lazard Frères, I.T.T.'s investment banker—would remit the proceeds plus dividends to I.T.T. and would collect a fee for its service.

The reason for this contract was that an immediate sale of the Hartford shares would entail a loss to I.T.T. of about $3.2-million because I.T.T. had acquired most of the shares by paying more than the market price. As a result of "parking" the stock with Mediobanca, I.T.T. made a profit of $5.9-million after paying the "parking fee."

The I.R.S. took only seven days to grant the ruling. Many tax lawyers long have contended the ruling violated the law because the sale to Mediobanca was not "unconditional" and was not made to an unrelated third party since Mediobanca had a side deal with Lazard to split the $2.1-million it eventually received for holding the Hartford stock for I.T.T. Furthermore, they note that Felix G. Romatyn, a partner in Lazard, was also a director of I.T.T. and a member of its executive committee.