

# IRS Limited Political Cases

By Stan Crock

Washington Post Staff Writer

A former Internal Revenue Service intelligence director, John J. Olszewski, said yesterday that his superior had told him to stay out of the IRS investigation of Watergate-related corporate income tax violations.

The superior, John F. Hanlon, who left his post as assistant commissioner for compliance on Jan. 31, said in a telephone interview that he handled the investigation, which he termed a "very unusual operation." Hanlon, now a lawyer with the Washington law firm of Covington & Burling, said he could not explain why it was unusual because that information is confidential.

Olszewski, director of intelligence at IRS from Sept. 3, 1972, until last May 9, told a House Government Operations sub-

committee he found the order "rather disturbing."

In other testimony yesterday, another former IRS intelligence chief said the agency had gathered information on illegal political contributions by corporations in 1966 but Justice Department officials decided not to prosecute for tax fraud.

Olszewski told the subcommittee, which is investigating alleged abuses by IRS intelligence unit, that "someone" in the office of the assistant commissioner for compliance told him last December or January "to keep out of that activity," a reference to the Watergate investigation.

Under persistent questioning by Rep. Edward Mezvinsky (D-Iowa), Olszewski re-

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luctantly testified that Hanlon, assistant commissioner for compliance at that time, issued the order. Olszewski said he was given no reason for the directive and would not speculate on it.

Rep. Elliott H. Levitas (D-Ga.) said the order "raises substantial questions in my mind" that "perhaps there were people who didn't want it to be handled in a routine way," so that the investigation could be controlled.

It "doesn't make sense" for Olszewski to be excluded from the investigation while intelligence agents were assigned to it, Levitas said.

Hanlon, as assistant commissioner for compliance, controlled both the audit and intelligence units. "the project had an objective and we met the objective," Hanlon said in the telephone interviews, but it was confidential and cannot be disclosed.

Asked if he told Olszewski to stay away from the investigation, Hanlon replied, "If he said it, he said it."

Olszewski said the IRS had computerized a "huge, huge volume of information" concerning corporate political contributions received from various congressional Watergate investigations and the special prosecutor's office. Tax fraud may be involved if contributions are covered up as business deductions.

The IRS recently "disbanded" the computer even though there were ongoing investigations, he testified. Mezvinsky criticized this "very unusual act," saying the information was "critical."

IRS later issued a statement saying the leased computer had finished collating the information and was returned to the ven-

dor. The information has been sent to IRS field offices, IRS said.

IRS agents currently are investigating 111 companies for possible illegal domestic and foreign political contributions, according to IRS Commissioner Donald Alexander.

About 25 or 30 companies were implicated in investigations by the special prosecutor, the Securities and Exchange Commission, congressional investigators and the Civil Aeronautics Board, an IRS spokesman said yesterday. The other investigations arose during normal audits of corporations, the spokesman said.

Illegal corporate campaign contributions and possible tax fraud were investigated as long ago as 1966, according to Robert K. Lund, head of IRS intelligence between October, 1970, and June, 1972.

Lund told the subcommittee that in 1966, when he was in charge of the IRS Los Angeles office, IRS agents in five or six cities, including Los Angeles, catalogued business deductions "to see where it was going" and found contributions concealed as false deductions.

The IRS director at the time, Sheldon S. Cohen, took the information to the heads of both major parties and said, "This is what Revenue has discovered—cut it out," Lund testified.

The Justice Department later decided not to prosecute tax fraud violations found during the investigation, he testified.

William A. Kolar, director of IRS intelligence from 1966 to June, 1970, said there were some prosecutions for illegal corporate contributions.

But the failure to prosecute the tax fraud cases "discouraged" IRS agents and they stopped investigating, he said.