

APR 14 1976

WXP051

IRS Claims Milk Co-op Owes \$16 Million

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The Internal Revenue Service has stepped up its demands for back taxes and fraud penalties from the nation's largest dairy farm cooperative to \$16.7 million.

Stripped of its tax-exempt status last April, the co-op, Associated Milk Producers, Inc., was slapped most recently with bills for \$5.9 million in unpaid income taxes in fiscal 1972 and 1973 and a fraud penalty of \$1.9 million for 1972.

The IRS notices, on file in U.S. Tax Court here, accuse the co-op of improperly claiming tax deductions totaling millions of dollars. Much of the money was evidently spent in connection with the political activities of top AMPI officials during the Johnson and Nixon administrations. AMPI lawyers are challenging the IRS revocation of the dairy co-op's tax-exempt status and the government's disallowance of most of the claimed deductions.

One of the biggest items in dispute is the \$3.6 million that AMPI spent on its September, 1971, convention in Chicago after President Nixon's controversial decision to increase government milk price supports that year.

As guest of honor at the convention, Nixon was warmly greeted by 40,000 dairy farmers and their relatives in McCormick Place for what was billed as "the largest farm meeting in history." Meanwhile, the political arms of AMPI and two sister co-ops, which had lobbied for the higher price supports, were funneling money into a string of dummy committees surreptitiously set up to collect money for the President's re-election campaign.

The records in U.S. Tax Court here indicate that AMPI spent \$3,654,839 on travel, lodging and meals for the co-op's members and guests at the 1971 convention and then claimed it as a tax-deduct-

ible "ordinary and necessary business expense."

The IRS has disallowed the claim, prompting AMPI lawyers to add it to the list of disputes they want the courts to resolve. The San Antonio-based co-op is also being ~~charged~~ assessed for back taxes and fraud penalties of \$5.6 million for fiscal 1971; \$2.2 million for fiscal 1970, and nearly \$1.1 million for fiscal 1969. All of the claims and the fraud penalty total \$16.7 million.

AMPI's ~~former~~ architects, former general manager Harold S. Nelson and special counsel David L. Parr, pleaded guilty in 1974 to similar but separate charges of making illegal political contributions to Republicans and Democrats, from Nixon to Sen. Hubert H. Humphrey (D-Minn.) to Rep. Wilbur Mills (D-Ark.).

The dispute in Tax Court here also in-

volves hundreds of thousands of dollars AMPI paid out to prominent Democratic and Republican lawyers and public relations consultants for various services.

Instead of disallowing such deductions, however, the IRS, court papers indicate, appears to be challenging the deductibility of every payment for "professional services" that AMPI made over the years to politically well-connected Washingtonians.

"What they [the IRS] obviously did was take me and perhaps others and say that all our work — whether it was for legislative analysis or public relations or anything—was obviously political," said former Humphrey aide Ted Van Dyk, who served as a public relations consultant for AMPI.

"Frankly, I think they're wrong," Van Dyk added. "Otherwise every lawyer and consultant in Washington is going to be out of business. They're all paid out of corporate funds."