

TAX CASE HELD UP FOR C.I.A. CONDUIT

Inquiry Into Kaplan Fund of
New York Put Off 2 Years,
but a Deal Is Denied

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Special to The New York Times

WASHINGTON, March 4 —

An investigation of the J. M. Kaplan Fund of New York City by the Internal Revenue Service was held in abeyance for two years because the fund was serving as a conduit for money from the Central Intelligence Agency.

This inaction was acknowledged by tax agency officials when they testified in August, 1964, before the subcommittee on foundations of the House Select Committee on Small Business, headed by Representative Wright Patman, Democrat of Texas.

However, the officials insisted at that time, and insisted again this week, that the tax agency had not been a party to any arrangement between the Kaplan Fund and the intelligence agency.

'A Sensitive Matter'

They also insisted then, and again this week, that the Kaplan Fund had been given "no immunity," as a result of its C.I.A. connection, from the possibility of having its tax-exempt status revoked or having to pay tax penalties if it were found to be in violation of the law.

Mitchell Rogovin, who was then the revenue service's liaison with the intelligence agency, told Mr. Patman, in explaining the delay, that the use of the Kaplan fund by the C.I.A. was "a sensitive matter."

"We were dealing with it in a sensitive fashion, and there

was some time delay as a result," Mr. Rogovin said.

This is the background of the Kaplan fund case:

On March 29, 1957, after lengthy investigation, Donald R. Moysey, district director of the tax agency for lower Manhattan, notified the Kaplan fund that there was "substantial basis" for revoking its tax-exempt status and that it had recommended revocation—"retroactively and prospectively"—to the agency's commissioner in Washington.

The reasons given were that the Kaplan fund "was never intended to be from its inception" in 1944 "availed of for purely charitable, educational or other exempt purposes" that it had not operated as such, and that it had borrowed large sums from its creator, J.M. Kaplan, for business and trading purposes.

The Kaplan fund protested this finding, as it was permitted to do.

On Jan. 7, 1958, the new district director, Raphael Meisels, upheld the original recommendation.

Then, on March 24, 1960, Kenneth W. Moe, successor to Mr. Meisels as the director of Washington, overrode the earlier findings and notified the fund that its returns for the years 1952 through 1956 would be accepted and its exemption upheld for those years.

Audit for '57-'60 Begun

However, in January, 1961, the lower Manhattan director began an audit of the Kaplan fund for 1958 through 1960.

It is not clear from the Patman subcommittee hearings whether the intelligence agency made the conduit arrangement with the fund in 1959 or 1960. But it seems clear that the arrangement was not put into effect until 1961.

In that year, the fund received \$308,950 from five foundations that Mr. Patman characterized as C.I.A. fronts—the Gotham Foundation, the Michigan Fund, the Andrew Hamilton Fund, the Borden Trust and the Price Fund. The Kaplan Fund contributed the same amount to the Institute of International Labor Research, Inc.

In 1962 the Kaplan Fund delivered to the labor institute \$220,000 it received from the Price Fund, Edsel Fund, Beacon Fund and Kentfield Fund—all characterized as fronts.

In 1963, the labor institute received from the Kaplan Fund \$395,000 contributed to Kaplan by the Price, Edsel, Borden, Beacon and Kentfield funds.

In 1964, the year of the Patman hearings, the Kaplan Fund ceased being a conduit.

Meanwhile, according to information furnished Mr. Patman by the Kaplan fund's attorney, there were no conferences with the revenue service between July 26, 1962, and July 28, 1964, about the fund's financial transactions in the years 1957 to 1960.

Testimony in 1964

Mr. Patman said that "Mr. Rogovin [the tax service liaison man] informed us that the J. M. Kaplan Fund has been operating as a conduit for channeling C. I. A. funds and indicated that the fund's operations with the C. I. A. was the reason for the lack of action on the part of I.R.S."

In the 1964 hearings this exchange took place between Mr. Patman and Mr. Rogovin, who is now Assistant Attorney General in charge of the tax division of the Justice Department:

Q. Did the C. I. A. ask the I. R. S. for its opinion as to whether the Kaplan fund should be used as a conduit to channel C. I. A. funds? A. It did not, to the best of my knowledge.

Q. Did the I. R. S. recommend to the C. I. A. that the conduit to channel C. I. A. funds? A. Again, not to the best of my knowledge.

Mr. Rogovin went on to say that "the C. I. A. did not advise us or ask us for our advice regarding their dealings with the Kaplan fund."

In late 1961, he continued, the tax service first became aware of the intelligence agency's interest in the Kaplan fund "when they contacted us to indicate that they had been led to believe that an audit was being conducted of the Kaplan fund."

"They were concerned as to whether or not their interest in the fund would be made public . . ." he added.

Mr. Rogovin said the intelligence agency had told the tax service that it had not been aware of the examination of the Kaplan fund that had been going on then for at least six years.

Unanswered Question

It was never made clear why the intelligence agency did not have this knowledge, or why, when it learned of the situation in late 1961, it continued to use the Kaplan fund for two more years.

When asked about this yesterday, a former high official of the tax agency said, "It's amazing."

And an official in the general counsel's office of the intelligence agency, asked why the Kaplan fund had been selected when it was in trouble with the tax service, said "You

But a former intelligence agency officer, explained the decision this way.

"They [the C.I.A.] didn't know of the I.R.S. trouble. They didn't even look at [Kaplan's] 990-A's." The 990-A is the listing of assets, income from investments and contributions received and disbursed that must be filed with the tax

agency by tax exempt organizations.

After learning of the trouble in 1961, the former intelligence officer said, a decision was made to stop using the Kaplan fund, but the decision was not carried out until after the Patman hearings.

He said the intelligence agency officials "don't really know what's going on domestically."

"They go on naively. They live out in the boondocks [in Langley, Va.], deeply isolated from reality," he added.

A Similar Case

In the four years 1961 through 1964, the intelligence agency also used the David, Josephine and Winfield Baird Foundation of New York to channel \$4,568,800 from front foundations to a number of organizations, chiefly the African - American Institute, the American Friends of the Middle East and the International Development Foundation.

It did this despite the fact that in March, 1959, the New York district director of the tax service proposed revocation of the foundation's tax-exempt status for 1951 through 1959.

The Washington office again overruled this recommendation, but only after the D-J-W Baird Foundation and two other Baird foundations — Winthrop Baird Foundation and Lansing Foundation—agreed to distribute all their assets to bona fide charitable organizations and dissolve themselves by Dec. 31, 1965.

This agreement has not yet been effected because the D-J-W Baird Foundation is contesting in Tax Court the government's claim of \$1,341,679 in taxes for the years 1960 to 1964, and the Winfield Baird Foundation is contesting an assessment for the same years of \$4,235,063.

Similarly, because of a tax case involving a Kaplan company — Jemcap, Inc.—the tax agency has not completed the audit of the Kaplan foundation for the years 1958 to 1963, which it told Mr. Kaplan would be finished by July 31, 1965.

However, the Jemcap case was settled in February, 1966, for \$450,000, and officials said today that the whole question of the Kaplan foundation's tax-exemption had been reactivated.

Pat Rogovin, Mitchell
2-24-67 (general)