

# 1972 commissioner's annual report



## Visitor's Gallery

"Taxes USA" An exhibition of the  
history of the Internal Revenue Service and the role of  
taxation in the history of our country.  
Hours: Monday - Friday 9:00 AM to 4:30 PM



Department of the Treasury  
Internal Revenue Service



*Associate Supreme Court Justice Harry Blackmun (right) administers the oath of office to Johnnie M. Walters, Commissioner of Internal Revenue as Mrs. Walters looks on.*

Corporation Statistics Staff  
Statistics Division IRS,

Honorable George P. Shultz  
Secretary of the Treasury  
Washington, D. C. 20220

Dear Mr. Secretary:

We proudly present to you the Annual Report of the Internal Revenue Service for fiscal year 1972.

For the first time, receipts surpassed the \$200 billion mark, reaching a total of \$209.9 billion. Collections increased in almost every category, reflecting the good health of the economy, the conscientiousness and good citizenship of Americans, and the dedication of the men and women of the Internal Revenue Service.

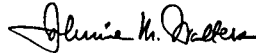
For this year, in particular, the statistics do not depict adequately the accomplishments of Service employees, who merit a "well done" not only for effective collection of the Federal revenues but also for superb execution of their added responsibilities under the Economic Stabilization Program.

Federal tax administration in the United States, with its low cost per-dollar-collected, far surpasses the efficiency of revenue gathering efforts in other countries. Yet, we must not rest on these laurels. We must continue to seek ways to make our operations more responsive to the needs of taxpayers so that voluntary compliance, the backbone of our tax system, will reach even higher levels.

The Service is striving to provide tax assistance, education, and information to all who ask for it, and to reach out to those who are unaware of tax law requirements with programs of expanded service.

In 1972, the Service made substantial progress, and we expect to report greater accomplishments in 1973.

Sincerely,

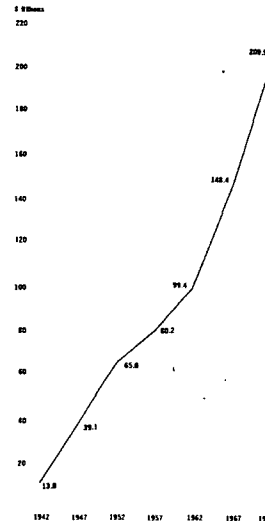


Johnnie M. Walters  
Commissioner of Internal Revenue

## MISSION OF THE SERVICE

The mission of the Service is to encourage and achieve the highest possible degree of voluntary compliance with the tax laws and regulations and to maintain the highest degree of public confidence in the efficiency and integrity of the Service. This includes communicating the requirements of the law to the public, determining the extent of compliance and causes of noncompliance, and doing all things feasible for a proper administration and enforcement of the law.

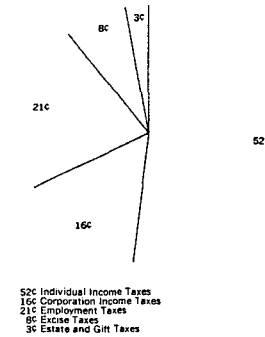
### Tremendous Increase in Gross Collections Over Thirty Year Period (1942-1972)\*



\*During this period significant changes in the tax laws, the population, and in the economy caused changes in tax receipts.

### THE TAX DOLLAR WHERE IT CAME FROM

FISCAL YEAR 1972



52% Individual Income Taxes  
16% Corporation Income Taxes  
21% Employment Taxes  
8% Excise Taxes  
3% Estate and Gift Taxes

### STATISTICAL HIGHLIGHTS

(Amount (thousand dollars))

	1971	1972	Percent Change
<b>Gross Collections</b>	<b>\$191,647,198</b>	<b>\$209,855,737</b>	9.5
Individual Income	\$100,752,421	\$108,870,186	8.1
Corporation Income	\$30,319,953	\$34,925,546	15.2
Employment	\$39,918,650	\$43,714,001	9.5
Estate and Gift	\$3,784,283	\$5,489,969	45.1
Excise	\$16,871,851	\$16,847,036	-0.1
<b>Refunds:</b>			
Number	55,916,604	55,154,883	-1.4
Amount	\$19,022,568	\$18,970,640	-0.3
<b>Returns Filed</b>	<b>111,447,000</b>	<b>112,000,449</b>	0.5
<b>Returns Examined</b>			
Number	1,645,929	1,695,848	3.0
Tax Increase Recommended	\$3,408,347	\$3,413,133	0.1
<b>Returns Mathematically Verified:</b>			
Number	72,938,000	72,482,000	-0.6
Amount of Tax Increase	\$313,052	\$238,982	-23.7
Amount of Tax Decrease	\$140,235	\$116,406	-14.9
<b>Delinquent Returns Secured:</b>			
Number	735,000	815,000	10.9
Amount	\$489,359	\$452,324	-7.6
<b>Delinquent Accounts Collected</b>	<b>\$2,606,838</b>	<b>\$2,327,585</b>	-10.7

Letter of Transmittal / ii

## REPORT ON OFFICERS

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## ORGANIZATION—PRINCIPAL OFFICERS

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### Notes

All yearly data are on a fiscal year basis, unless otherwise specified. For example, data headed "1972" pertain to the fiscal year ended June 30, 1972 and "July 1" inventory items under this heading reflect inventories as of July 1, 1971.

In many tables and charts, figures have been rounded and may not add to the totals which are based on unrounded figures.

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. Price \$1.75 (paper cover)—domestic post-paid, or \$1.50 GPO Bookstore  
Stock Number 4804-00591





## New Dimensions in Taxpayer Service

As part of the Service's continuing commitment to increase assistance to taxpayers and improve forms and instructions, Commissioner Walters ordered a study to determine the feasibility of reintroducing the short-form income tax return (Form 1040A). The study produced a simplified half-sheet size form for reporting 1972 taxes which can be used by more than 30 million taxpayers, or 40 percent of individual income tax filers. The Revenue Act of 1971 made an abbreviated form especially practical because of an increase in the standard deduction and extension of the optional tax tables to more taxpayers. A simplified form also was desirable because of an increasing public reliance on commercial returns preparers, especially among lower income taxpayers.

In 1972, the Service responded to more than 41 million taxpayers seeking information and assistance with tax matters. Over 19 million persons telephoned, about 9 million visited Service offices, and almost 300,000 more wrote. The Service reached 13 million through various educational programs.

The Service provided prompt taxpayer assistance through a variety of methods. Centiphone, a system of toll-free telephone lines to Service offices, was available to taxpayers in 27 states. Nationwide, the Service gave assistance at shopping centers, public libraries, at taxmobiles stationed at strategic locations to assist low-income taxpayers and senior citizens, and at military installations, nursing homes, hospitals and other institutions. The Service increased the tempo of its assistance toward the close of the filing period by adding more employees to the program and extending office hours. It helped more than 500,000 taxpayers who visited Service offices during the last six days of the 1972 filing season.

## Taxpayer Education Aids Millions

This year Service-sponsored taxpayer education programs helped more than 13,000,000 taxpayers.

Teaching Taxes, the largest Service taxpayer education program, provided materials and instruction to 4.1 million students in 23,000 secondary schools. The Teaching Taxes Program explains the tax system and teaches students to prepare accurate tax returns.

Tax practitioner institute programs dealing with tax situations of farmers, military personnel and the general public provided training to 54,000 participants who in turn assisted nearly 8,000,000 taxpayers. The Volunteer Income Tax Assistance (VITA) Program trained volunteers who then assisted 300,000 low-income and other disadvantaged taxpayers such as those with language problems, the blind, and the deaf. VITA is a program in which IRS employees train volunteers from the community to assist disadvantaged taxpayers in preparing their returns. Through VITA, members of diverse organizations such as community action groups, churches, colleges, and retirement organizations assisted taxpayers in community centers, Indian reservations, churches, store-fronts, hospitals, and elsewhere. Also as part of the VITA program, the Institutes of Lifetime Learning coordinated with the Service in providing assistance to 53,000 elderly and retired taxpayers in 317 cities. Other national organizations will be contacted next year to develop similar programs for their groups.

Many junior colleges, colleges, and universities offered the Teaching Business Taxes Program with material provided by the Service. In 1972, some 14,000 students in economics, business, and accounting received instructions through this program in preparing tax forms filed for small businesses and corporations.

## New Integrated Data Retrieval System (IDRS) Becomes Operational

The Service is trying to develop and use the most advanced scientific methods to speed replies to the growing number of inquiries it receives from taxpayers.

In 1972 the Integrated Data Retrieval System operated successfully in the Austin, Texas, Service Center and the six states of the Region. The key to IDRS is a series of video display-inquiry stations in IRS offices. These stations link to large random-access computer files in an IRS service center. When the taxpayer visits or writes an IRS field office concerning his account status, an IRS employee consults the computer by sending a message through the terminal link to the service center. Within seconds, the computer responds to the inquiry by flashing a message on a video screen in the field office.

In addition to providing IRS personnel with almost immediate access to a particular taxpayer file and a speedy response to the taxpayer, IDRS eliminates paper work and permits rapid updating of stored information.

The IRS will install the Integrated Data Retrieval System in all service centers, district offices, and many other locations in fiscal year 1973.

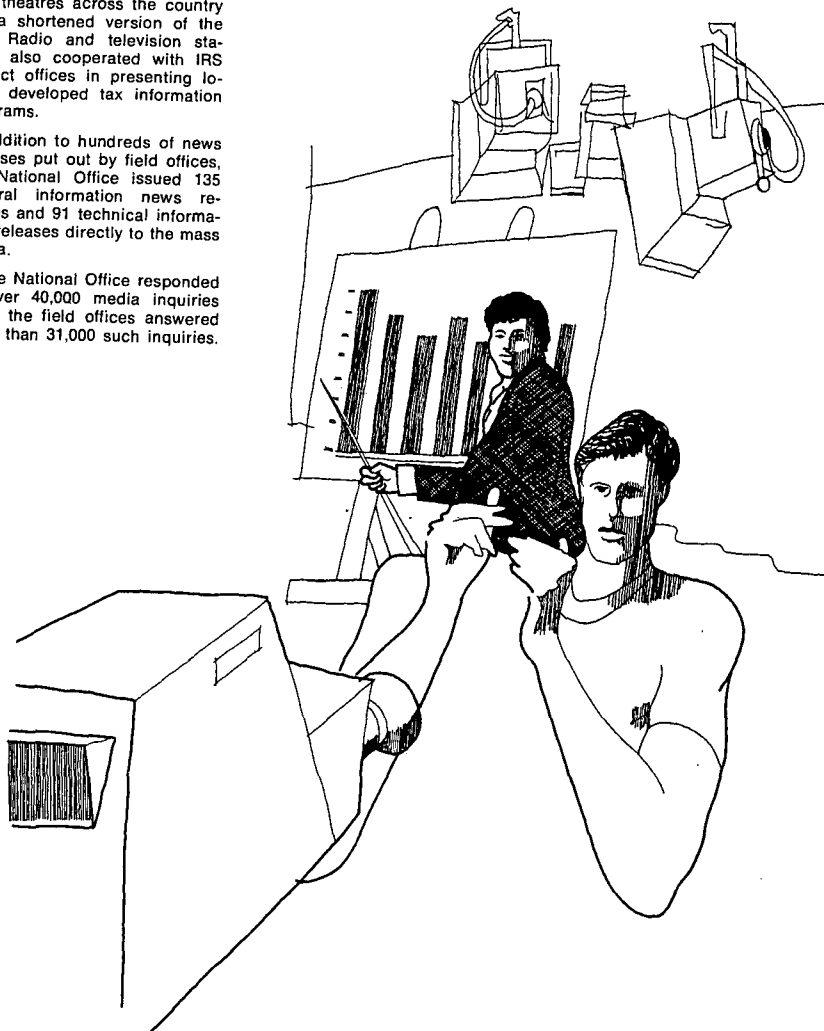
## Taxpayers Reached Through Cooperation of the Media

This year the Service provided a weekly tax column ("Taxpayers Ask IRS") to 1,508 daily newspapers and 5,986 weekly newspapers. Field personnel reported heavy usage of the column, especially during the filing period. As a public service, 4,750 radio stations broadcast Service-developed spot announcements and 765 television stations carried film spots.

Television stations throughout the country gave public service time to a 30-minute Service film, providing in dramatized form, general tax information for the public. More than 800 motion picture theatres across the country ran a shortened version of the film. Radio and television stations also cooperated with IRS district offices in presenting locally developed tax information programs.

In addition to hundreds of news releases put out by field offices, the National Office issued 135 general information news releases and 91 technical information releases directly to the mass media.

The National Office responded to over 40,000 media inquiries while the field offices answered more than 31,000 such inquiries.



## Taxpayer Publications Explain the Tax Law

The Service produces several forms of interpretative publications which explain the tax law in non-technical language. Service personnel revise most of these publications annually to reflect changes in the law, adding new publications from time to time and discontinuing others.

The Superintendent of Documents of the Government Printing Office and IRS offices handle the distribution and sales of taxpayer publications. This year, many local offices of the Postal Service also sold "Your Federal Income Tax" and "Tax Guide for Small Business." These are two of the more popular publications and the only ones not distributed free of charge.

"Your Federal Income Tax" continues as one of the Government's best selling publications with 1,873,654 copies sold this year.

Service technicians rearranged the "Tax Guide for Small Business" to discuss in sequence the starting, operating, and disposing of a small business. The publication also covers differences in tax treatment of sole proprietorships, partnerships, corporations, and electing small business corporations.

This year the Service developed four new publications: "Tax Information on United States Savings Bonds," Publication 576; "Amortization of Pollution Control Facilities," Publication 577; "Guides for Qualification of Pension, Profit-Sharing, and Stock Bonus Plans" Publication 778; and a Spanish language version of "Information for Preparation and Filing of the Individual Federal Income Tax Return," Publication 579. For a list of titles of taxpayer publications see page 93.

## Public Informed on Economic Stabilization Program

In support of the Office of Emergency Preparedness, during Phase I of the President's Economic Stabilization Program, the Service responded to almost 8,000 media inquiries; participated in 68 news conferences, 614 radio and 330 television programs; furnished public speakers on 557 occasions; and issued 746 news releases. A weekly economic stabilization question and answer column provided information to the public through 8,000 daily and weekly newspapers.

With the move into Phase II the Service stepped up its information efforts and issued 1,367 news releases publicizing regulations and informing the public of matters of general interest. The Service responded to 11,004 media inquiries; participated in 58 news conferences, 784 radio programs

and 446 television programs; and provided speakers for 2,938 meetings of business associations and other groups. The National Office prepared 11 radio spot announcements for the Cost of Living Council Radio Spotmaster system for use by stations across the country.

## Spanish Language Program

For the first time the Service undertook a program of providing some tax information in Spanish for the largest non-English speaking group in the United States. Through simultaneous press conferences in New York City, Miami and Los Angeles and news releases, the Service announced the publication of a new Spanish language guidebook for individual taxpayers. The Service also issued some Spanish language news releases and spot announcements to news media that print or broadcast in Spanish. Spanish speaking Service personnel appeared on radio and television programs to broadcast tax information.

## Publicizing Changes in the Tax Law—Increase in Withholding Rates

The Revenue Act of 1971 provided for increased withholding rates to eliminate the substantial underwithholding potential inherent in prior law. In some situations it was apparent that the new rates would cause too much tax to be withheld from the paychecks of many taxpayers. To meet this problem, the Service conducted a program to inform taxpayers about the latest change in the withholding tables, and of remedies available to prevent excessive withholding.

The Service prepared news releases and articles and arranged interviews with wire services, national magazines, and newsletter publishers. Nearly 900 television stations and the networks carried two television spot announcements on withholding, and Service offices distributed four radio spots to nearly 5,000 stations.

The Commissioner sent letters to more than 160,000 employers of 100 or more persons, explaining changes in the withholding rates. Service offices distributed copies of the Employer's Tax Guide (Circular E), which explained changes in withholding to 4.3 million employers who withhold

taxes from employees. The Service also sent explanatory letters to Cabinet members and other heads of Federal agencies with sizeable groups of employees.

## Other Changes in the Tax Law

The Revenue Act of 1971 brought about several other important changes for individual and corporate taxpayers. The Service answered press inquiries and issued releases to inform individuals about the increased standard deduction, changes in filing requirements, deductibility of household and dependent care, limited deduction or credit for political contributions, and changes in estimated tax filing requirements. Similar activities for corporate taxpayers covered Domestic International Sales Corporations, the Work Incentive Program, the Asset Depreciation Range System, and the Investment Credit.

## Casualty Loss Deductions

Many taxpayers in the East and Northwest suffered severe losses due to flood and wind damage. To assist these taxpayers, Congress extended the time to file amended 1971 tax returns so that taxpayers can deduct disaster area casualty losses sustained after the tax return filing deadline. The Service also applied special techniques to claims for refund in the disaster areas in order to process them and authorize refunds within three weeks.

Field offices in affected areas conducted information campaigns stressing local situations. The National Office answered press and taxpayer inquiries on changes in the law and issued news releases advising taxpayers in disaster areas that they could file amended 1971 tax returns.

## Special Procedures Speed Up Processing of DISC Rulings

The Revenue Act of 1971 authorized creation of Domestic International Sales Corporations (DISC). The purpose of this legislation was to make American goods and services more competitive in foreign markets. The Service, in conjunction with the Treasury and Commerce Departments, publicized advantages of operating a DISC to Chambers of Commerce and World Trade Committees in 40 cities.

## Technical Interpretations for Taxpayers and Service Employees

Many individuals and organizations write to the Service for interpretive assistance in the form of letter rulings where the tax treatment and implications of their financial transactions are not clear from the tax law regulations or published rulings.

Taxpayer and field office requests for technical interpretations and advice in various tax categories appear below:



Each year the Service publishes a number of pamphlets and instructional packages to assist taxpayers in filing returns. The pamphlets pictured above make up only a small portion of the total tax information publications issued.

### REQUESTS FOR TAX RULINGS & TECHNICAL ADVICE (CLOSINGS)

Subject	Total	Taxpayers Requests	Field Requests
<b>Total</b>	<b>18,356</b>	<b>15,702</b>	<b>2,654</b>
Actuarial Matters	453	417	36
Administrative Provisions	85	64	21
Alcohol, Tobacco & Firearms Taxes	3,647	2,754	893
Employment & Self-Employment Taxes	264	219	45
Engineering Questions	164	92	72
Estate and Gift Taxes	503	441	62
Exempt Organizations	3,964	3,400	564
Other Excise Taxes	322	231	91
Other Income Tax Matters	6,569	6,248	321
Pension Trusts	2,385	1,836	549

The Service received 13,671 applications from taxpayers for permission to change their accounting period or method, made 953 earnings or profit determinations, and issued 1,336 supplemental group rulings to parent exempt organizations.

**Published Rulings and Procedures Guide Taxpayers and Service Personnel**

Revenue Rulings are published positions of the Service based primarily on letter rulings on issues of general interest.

Revenue Procedures announce internal practices and procedures that affect taxpayers' rights and obligations.

The table below shows the number of Revenue Rulings and Revenue Procedures published during 1972 in the various tax categories:

Revenue Rulings and Revenue Procedures Published	Number
Total	704
Administrative	27
Alcohol, Tobacco and Firearms	26
Employment taxes	41
Estate and gift taxes	23
Excise taxes	102
Exempt organizations	40
Income tax	372
Pension trusts	65
Tax conventions	8

**Following Examples Illustrate Significant Administrative Interpretations and Procedures Published:**

Revenue Ruling 71-425 provides that, subject to certain guidelines stated therein, amounts received by a participant in a work-training program, such as a program under Title V of the Economic Opportunity Act, are neither includable in gross income nor considered wages for purposes of withholding income tax or taxes under the Federal Insurance Contributions Act.

Revenue Ruling 71-447 holds that a private school that otherwise meets the requirements of section 501 (c)-(3) of the Code will not qualify for exemption from Federal income tax if it does not have a racially nondiscriminatory policy as to students.

Revenue Ruling 71-556 presents detailed guidelines for integration of benefits or contributions in qualified pension or profit-sharing plans with benefits provided under the Social Security Act as amended through June 30, 1971. (Basic integration rules appear in section 1.401-3(e) of the regulations.)

Revenue Procedures 72-1 through 72-9 update and restate the general procedures of the Service for issuing rulings and determination letters to taxpayers and technical advice to district offices.

**Bulletin Provides Official Guidance**

The Service publishes rulings, procedures, and other significant technical developments in the weekly Internal Revenue Bulletin for the guidance of taxpayers, tax practitioners, and Service personnel.

Bulletins in 1972 contained: 647 Revenue Rulings, 57 Revenue Procedures, 14 Public Laws relating to Internal Revenue matters, 5 Committee Reports, 8 Executive Orders, 2 Tax Conventions, 70 Treasury Decisions containing new or amended regulations, 11 Delegation Orders, 6 Notices of Suspension and Disbarment from practice before the Service, and 229 announcements of general interest. Bulletins also announced 72 notices of acquiescence or nonacquiescence in adverse decisions of the United States Tax Court. The Service cumulates semiannually, contents of the Weekly Bulletins and publishes these as Cumulative Bulletins.

**Regulations Aid in the Uniform Administration of Revenue Laws**

The Service issues regulations to furnish its personnel and the public guidelines to minimize administrative discretion and encourage uniformity in application of the taxing statutes.

Normally, the Service issues proposed regulations through publication of the complete text in a public notice of proposed rule making. All notices invite written comments on the proposed regulations and inform the public of its right to request a hearing and to comment at the hearing. After considering the comments and suggestions, the Service revises proposed regulations as necessary. Preparation and publication of a Treasury decision in the Federal Register follows. These regulations have the force and effect of law.

At times a new law may require taxpayers to make important decisions soon after the law's enactment. To aid such taxpayers, the Service publishes temporary regulations pending issuance of permanent regulations in the normal manner. Where a notice is unnecessary or impractical, the Service publishes regulations without a notice of proposed rule making.

During the year, the Service held 24 public hearings on proposed regulations, with total attendance over 960.

The Tax Reform Act of 1969 required 179 regulations projects. The Service also undertook 36 projects to clarify changes made by the Revenue Act of 1971. The following appeared in the Federal Register on projects associated with the Tax Reform Act of 1969: 22 Treasury decisions containing final regulations; 3 Treasury decisions containing temporary regulations; and 39 notices of proposed rule making. These actions covered income averaging, capital losses, multiple corporations, charitable remainder trusts, and reserves for losses on mutual savings banks. The following appeared in the Federal Register on projects associated with the Revenue Act of 1971: 4 Treasury decisions containing temporary regulations; and 3 notices of proposed rule making. These actions dealt with investment credit and treatment of corporations qualified as a Domestic International Sales Corporation. On projects not under the Tax Reform Act of 1969 or the Revenue Act of 1971, the following appeared: 24 Treasury decisions containing final regulations; 4 Treasury decisions containing temporary regulations; and 22 notices of proposed rule making.

**Deductible Contributions Guide For Donors and Service Personnel**

The latest biennial revision of Publication 78, Cumulative List of Exempt Organizations, contains the names of approximately 130,000 organizations. Cumulative bi-monthly supplements, issued in 1972 added 11,430 names to and deleted 943 names from this list of organizations to which contributions are deductible for Federal income tax purposes. The supplements issued in 1971 added 9,871 names to and deleted 1,180 names from the list.

**Pension Trust Activity**

The number of new pension and profit-sharing plans continues to climb. Based on letters of determination issued in the first three quarters of the fiscal year, corporate pension and profit-sharing plans were up approximately 31% and 15% respectively. Approximately 35 million people participated in nongovernmental pension and profit-sharing plans of various types. Assets of these plans were about \$151 billion at the end of 1972. The large number of people and huge assets involved in these plans generated considerable interest on the part of the press and the congress.

**Alcohol and Tobacco Industries, and Firearms and Explosive Materials Licensees Notified of Technical Changes**

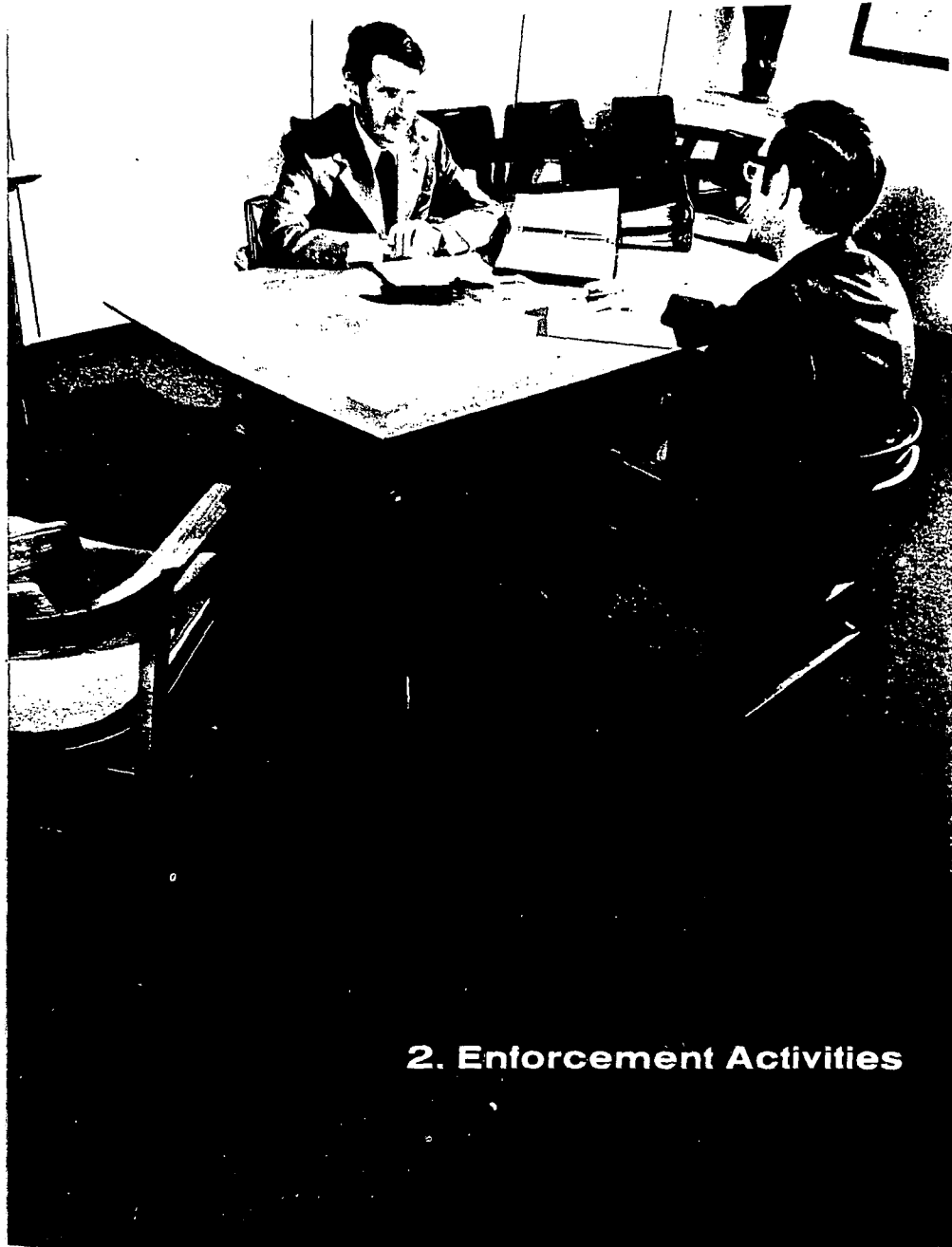
The Service issues industry circulars to keep the alcohol and tobacco industries, firearms licensees, and explosive materials licensees informed about requirements of laws, regulations, rulings, and procedures.

The majority of circulars informed industry members of Treasury Decisions and/or Revenue Rulings. Topics in the remaining circulars included: Environmental impact statements concerning use of polyvinyl chloride plastic in the manufacture of liquor bottles; changes in design of green strip stamps used on bottled-in-bond whiskey; revocation of approval of various food activities used in alcoholic beverages; sale of explosive materials to nonpermittees or nonlicensees; and application of Federal explosive regulations on finished common fireworks.

The Internal Revenue Service's responsibility for regulation of the alcohol and tobacco industries ended at the close of the fiscal year. The responsibility has been transferred to the Treasury Department. The next chapter provides information on 1972 accomplishments in the alcohol and tobacco regulated operations.

Determination Letters Issued on Employee Benefit Plans, FY 1972

Item	Profit sharing and stock bonus plans	Pension or annuity plans	Total
Determination letters issued with respect to—			
1. Initial qualification of plans:			
a. Plans approved	19,061	24,855	43,916
Number of participating employees	241,752	538,845	780,597
b. Plans disapproved	155	230	385
2. Termination of plans	1,724	1,657	3,381
3. Amendments	5,709	14,075	19,784
4. Investments	317	260	577
Cases closed without issuance of determination letter and other disposals	1,618	2,818	4,436



**2. Enforcement Activities**

## New Challenges in Enforcement

Enforcement activities help assure that taxpayers compute their tax liabilities properly and pay according to law. Most important, these activities serve to maintain general confidence in the voluntary self-assessment system.

In major enforcement developments Commissioner Walters launched an investigation of the activities of incompetent and unscrupulous tax return preparers. At the same time, the Service shouldered new responsibilities in the tax investigations of key figures engaged in the narcotics traffic, as part of the president's War on Narcotics Traffickers.

The Commissioner, in public appearances, also expressed concern about the disparity and inadequacy of judicial sentences handed down in tax fraud cases, as well as the questionable practice of some societies and commercial associations promoting conventions and seminars as business endeavors when they appear to be shallowly disguised personal trips or vacations.

## Tax Return Preparers

For some time the Service has been concerned about unscrupulous tax return preparers, their effect on taxes paid, and their effect on voluntary compliance. Investigations have disclosed that some preparers typically increased or created deductions, or falsified the number of dependents. During the 1972 filing period, the Service launched a nationwide program to identify and prosecute such tax return preparers.

Of the 3200 tax practitioners contacted throughout the nation, the Service found that more than 1,800 prepared inaccurate or false returns. The Service has filed criminal action against practitioners in 26 states. The program has led to 430 potential or actual prosecutions so far, and 55 convictions or guilty pleas.

Throughout the filing period the Service worked through the news

media in cautioning taxpayers to choose tax return preparers carefully.

The Intelligence Division will continue to monitor activities of suspected practitioners, and the Service will audit, as necessary, individual returns prepared by them.

Abuses by return preparers in recent years have led to a number of bills before Congress to provide for regulation or licensing of return preparers. This appears to have encouraged an increasing number of tax practitioners to take the Service's annual Special Enrollment Examination to qualify for practice before the Service.

## Deceptive Trade Practices by Commercial Tax Return Preparers

Aside from evidence of improper returns preparation, it appears that the search for increased business by preparers has led to a number of deceptive trade practices, including misleading advertising, misleading guarantees, and using customer's tax information for preparation of mailing lists and other unauthorized purposes.

Number of tax returns examined

(Figures in thousands)

Type of return	Total		Field		Office	
	1971	1972	1971	1972	1971	1972
Grand total	1,646	1,696	566	593	1,080	1,103
Income tax, total	1,487	1,497	429	424	1,058	1,073
Corporation	130	136	129	135	1	1
Individual and fiduciary	1,346	1,343	299	271	1,057	1,072
Exempt organization	11	18	11	18	( <sup>1</sup> )	( <sup>1</sup> )
Estate and gift tax	41	40	36	35	4	5
Excise and employment tax	117	158	100	133	18	25

<sup>1</sup> less than 1,000.

The Service and the Federal Trade Commission have conferred to combat these abuses. (For a description of pending legislative proposals see page 57.) Some of the nation's largest returns preparation firms have entered into agreements with the Federal Trade Commission consenting to a cease and desist order on deceptive trade practices. A number of other agreements are pending approval. Further, the Revenue Act of 1971 prohibits use of a customer's confidential tax information for purposes other than the preparation of tax returns.

## Examination Results

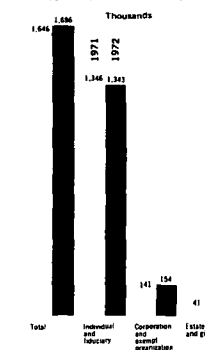
In 1972, the Service examined 1,695,849 returns, 49,920 more than the preceding year, reversing a nine year downward trend. Recommendations for additional assessments reached \$3.413 billion. The total included \$1.2 billion in additional tax and penalties recommended under the team audit approach used to examine large corporations. Examinations cover verification of income, deductions, and computation items reported on returns.

Individual and fiduciary returns comprised 79.2 percent of all examinations, and accounted for 29.3 percent of the additional tax recommended, while corporation returns accounted for over 50 percent of the additional tax recommended.

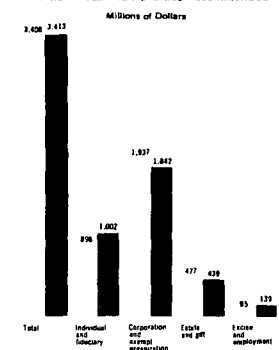
The table below shows the number of returns examined in 1971 and 1972 by type of tax.

The audit activity made impressive gains this year in reducing its inventory. By the end of the year, prior year returns in inventory were at the lowest level since 1963.

Number of Tax Returns Examined



Additional Tax and Penalties Recommended

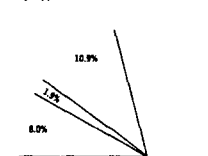


## Greater Reliance Placed on Computers To Select Returns for Audit

In 1969, the Service introduced the Discriminant Function System (DIF), to select returns for examination. The system uses computers to classify and rank individual income tax returns by error potential. In that way the Service can select returns with the highest probability of errors.

In addition to producing a higher tax yield, the system assures uniformity by using the same criteria to screen all individual income tax returns. Another advantage is fewer audits that result in no tax changes, thus improving taxpayer relations and operational efficiency. This year, the Service agreed with the tax liabilities reported by taxpayers in 32 percent of the returns audited, a record low.

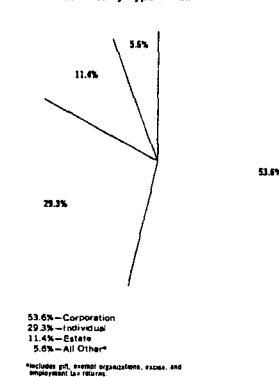
Percent of Total Returns Examined by Type of Tax



79.2%—Individual and Fiduciary  
8.0%—Corporations  
1.9%—Estate  
10.9%—All Other\*

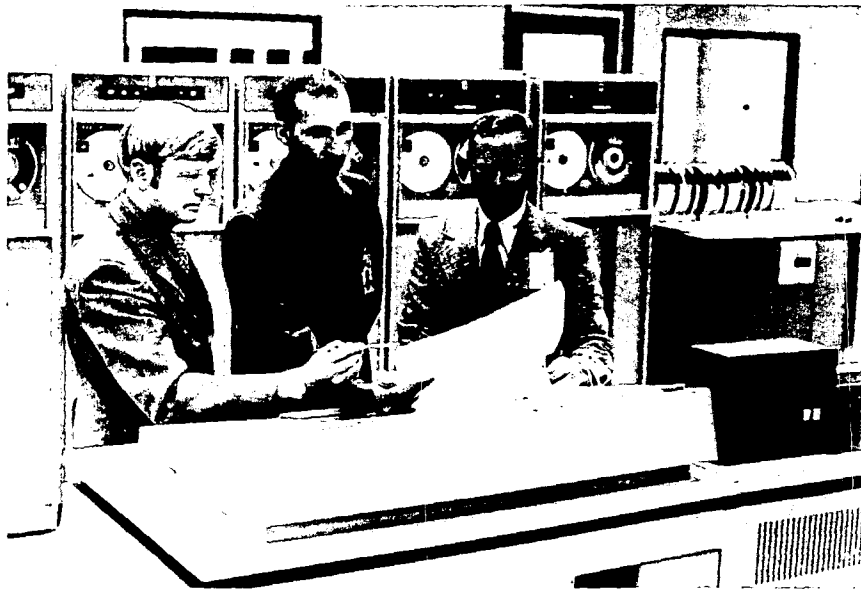
\*Includes gift, exempt organizations, excise, and employment tax returns.

Percent of Total Additional Tax Recommended by Type of Tax



53.6%—Corporation  
29.3%—Individual  
11.4%—Estate  
5.6%—All Other\*

\*Includes gift, exempt organizations, excise, and employment tax returns.



Studying output data for a joint audit-intelligence investigation in the Ogden Service Center computer room are: (l. to r.) Henry Philcox, Computer Audit Specialist, Reno District; Ralph Ingbretnsen, Assistant Division Chief, Data Conversion, Ogden Service Center; and Cliff Rich, Western Regional Intelligence Analyst.

### Increased Computer Assisted Audits

Computer assisted techniques play an important role in tax audits of automatic data processing accounting systems. Large masses of data which meet predetermined audit criteria are scanned, analyzed, and recomputed at tremendous speed. This technique produces printouts of manageable size, thus saving considerable resources for the Service and taxpayers.

Revenue Ruling 71-20, requires that taxpayers retain pertinent computerized tax records. The Service has completed record evaluation requests for a substantial number of taxpayers. After evaluation, Service personnel advise the taxpayers as to which records to retain in machine-sensible form.

### Joint Committee Reviews Large Overassessments

A report on all refunds and credits on income, estate and gift taxes over \$100,000 must be sent to the Joint Committee on Internal Revenue Taxation, as required by law. During 1972, the Service reported 1,171 cases involving overassessments of \$756.1 million to the Joint Committee, as compared with 790 cases and \$518.3 million in overassessments in 1971.

### Exempt Organization Program

Exempt organizations classified as private foundations reported more than \$4.3 million as initial taxes under the excise tax provisions of the Tax Reform Act of 1969.

The Service makes every effort to keep pace with its two-year audit cycle for large exempt organizations and its five-year cycle for private foundations. In 1972, the Service issued determination letters to 23 thousand organizations that applied for confirmation of tax exempt status under the law. In addition, the Service withdrew advance assurance of the deductibility of contributions from 45 private schools that failed to establish a racially nondiscriminatory admissions policy.

The Exempt Organization Master File (EOMF) continued to grow. The number of exempt organizations in the file has increased from 309,000 in 1967 to 535,000 in 1972. The rate of growth in 1972 was almost 5 percent.

### Team Audit Technique Used for Large Taxpayers

The Audit Division uses the team audit technique in examining complex corporate structures. Many corporations have diverse activities, intricate practices and transactions, and widely dispersed operations across the nation and in foreign countries. For these reasons, the teams may require engineer agents, international examiners, actuaries, data processing specialists, attorneys, statisticians, and economists.

### Expansion of Audit Concepts to Service Centers

Service centers conducted several correspondence audit programs in 1972, including the new Unallowable Items Program. This is a low cost audit program which uses computers to contact taxpayers about deductions which appear to be unallowable by law. Typical unallowable items include dividends exclusions in excess of the amount allowable, failure to reduce medical expenses by the percent of adjusted gross income, and the taking of fractional exemptions. In the period of January 1 to June 30, the Service corrected 452,521 unallowable items returns producing revenue of \$24.2 million.

The Information Document Matching Program matches information documents and other records filed with the Service with information reported on individual tax returns, thereby identifying persons who failed to report all of their income. Forms W-2 (Wage and Tax Statement) and Forms 1099 (U.S. Information Return) are principally used in this program.

The Multiple Filer Audit Program began in the final months of 1972. Computers analyzed individual returns to determine if more than one return had been filed under the same social security number. In many instances, married taxpayers filed two joint returns or separate returns and claimed duplicate exemptions or deductions, usually because of a misunderstanding in filing requirements. The Service sent letters to taxpayers explaining the error and proper return filing requirements and statements of additional tax due.

### Art Panel Assists in Evaluations

Since 1968, a panel of art experts has been assisting the Service in determining whether realistic valuations have been placed on contributed works of art and on art objects valued for estate tax purposes.

The panel met three times in 1972 and reviewed 711 works of art valued in tax returns at more than \$18 million. The panel recommended a 30 percent reduction in the claimed value of works of art for charitable contributions and a 25 percent increase in the value of art objects included in estates.

In its four years of operation, the panel has reviewed approximately \$70 million worth of art and has recommended adjustments of approximately \$20 million.

## Administrative Appeals System

### General

The appeals function of the Service provides the taxpayer who disagrees with a proposed adjustment to his tax liability an opportunity for an early, independent review of his case. The purpose is to enable the taxpayer to settle his case promptly, without litigation, on a fair and impartial basis.

The appeals function is decentralized and operates in 58 district offices and 40 regional appellate offices. As need arises, the Service provides conferences at other locations. The taxpayer can go to either the district or regional office for an initial conference.

Although differences in authority and jurisdiction exist, both district and regional offices have the same objective—to resolve cases as soon as possible on a basis which reflects a fair administration of the law. The principal difference in authority is that only regional appellate offices may dispose of cases by considering hazards of litigation, that is, uncertainty as to outcome in the event of trial. The appellate division has this authority in keeping with longstanding Service policy which favors administrative settlements over protracted litigation.

Cases considered involve all types of taxes except those on alcohol, tobacco, firearms, narcotics and wagering. Issues run from the most elementary to the most complex, and deficiencies in tax from a few dollars to many millions. Claims for refund of tax and offers in compromise also rate consideration.

In most cases Service conferees and taxpayers reach a mutually acceptable basis for resolving the dispute, as a result, a relatively few cases actually go to trial. The Service closed over 98 percent of all cases without trial in the last seven years, and this year the appeals function achieved the greatest number of case disposals per conferee in history.

### Early Hearing Provided

At both district and appellate levels, the Service offers a conference soon after the case is received. To the extent possible, the Service arranges a date, time, and place most convenient to the taxpayer. Where the disputed tax is less than \$2,500, the taxpayer need not file a written protest for conference in the district office. The same rule applies in the regional appellate office if the taxpayer has first availed himself of a district conference.

Informal proceedings prevail at both levels and the taxpayer may represent himself or have counsel. If a conference fails to produce agreement, the Service informs the taxpayer of his additional rights and options.

In 1972, the appeals function disposed of 52,189 cases by agreement; the Tax Court decided 1,096 cases; U.S. District Courts and the Court of Claims decided 460 cases.

About half of the cases closed by agreement are at the district level and half at the appellate level. District conference staffs obtained agreement on about two-thirds of the cases. Activity in the district conference staffs appear in the table below:

District Conference Case Work-load

Item	Field Audit	Office Audit	Total
Case pending July	8,769	3,825	12,594
Cases received	24,882	17,250	42,132
Conference completed	24,141	16,628	40,769
Number agreed	14,861	11,853	26,714
Agreed as a percent of total	61.5	71.2	65.5
Cases pending June 30	9,510	4,447	13,957

### Appeal Options Available to Taxpayer

If there is no agreement at either district or regional level, the taxpayer can, in most instances, file an appeal with the Tax Court. Even though this is done, and the case is docketed for trial, the taxpayer may still reach a settlement with the appellate office. Except in unusual circumstances, the timely filing of an appeal with the Tax Court stays the assessment and collection of the tax until the Court has entered its decision.

As an alternative to trial in the Tax Court, the taxpayer can pay the deficiency in tax, file a claim for refund (at any time within two years from date of payment) and after either denial of the claim by the Service, or after 6 months from date of filing, enter suit for recovery against the Government in either a United States district court or the Court of Claims.

### Appellate Receipts and Disposals

Receipts in regional appellate offices had remained even at about 33,000 cases in each of the past four years. This year receipts increased to 34,278. Both nondocketed and docketed case receipts increased over the prior year.

There also was a substantial increase in docketed cases involving \$1,000 or less of disputed tax (for which special simplified provisions were made in the Tax Reform Act of 1969). In 1968, the Service received 972 cases; in 1969, 1970, 1971 and 1972 receipts were 1,267, 2,100, 2,781 and 3,321, respectively. Most of these cases were ultimately settled.

About 75 percent of the appellate workload consists of nondocketed income, estate, gift, excise and employment tax cases. In 1972, appellate offices closed 78 percent of these cases by agreement with the taxpayer. Agreements in this category have averaged more than 80 percent over the past 5 years.

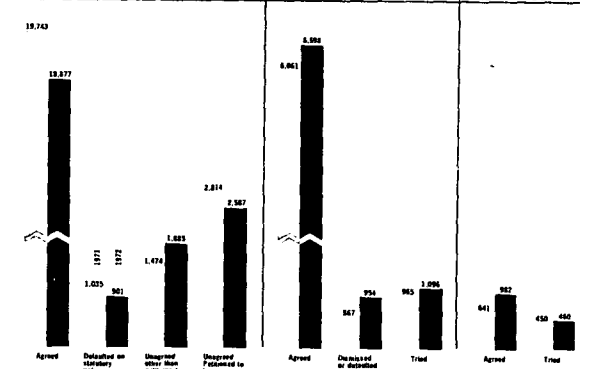
Taxpayers filed petitions for hearings before the Tax Court in 8,945 cases in 1972, as compared to 6,968 cases in 1970 and 8,299 cases in 1971. The increase was largely in the small case category where the Service offers informal procedures. Settlement negotiations on docketed cases continue and most cases are ultimately settled without trial.

The following table and chart show the processing of both nondocketed and docketed cases in 1971 and 1972. (For additional information see tables 12 and 13, page 123.)

Appellate Division processing of all cases for 1971-1972 (Income, estate, gift, excise, employment, and offers-in-compromise)

Status	Number of cases	
	1971	1972
Pending July 1	33,468	33,491
Received	32,682	34,278
Disposed of, Total	32,659	32,898
By agreement	25,804	25,475
Unagreed (overassessments, claims, excise, employment, and offer-in-compromise rejections)	1,474	1,855
By taxpayer default on statutory notice or dismissal by Tax Court	1,602	1,855
By petition to the Tax Court	2,814	2,587
Tried in the Tax Court	965	1,096
Pending June 30	33,491	34,871

APPEALS—DISPOSALS IN REGIONAL APPELLATE DIVISION OFFICES AND IN DEPARTMENT OF JUSTICE ON REFUND SUITS



essing system to mail out tax bills; (2) the impact of recent tax legislation which removed many low income taxpayers from the tax rolls; and (3) some easing in economic conditions. The Service established 2.6 million delinquent accounts, 202,000 or 7.2 percent fewer than last year. The amount of delinquent tax also dropped by \$298 million or 8.5 percent to \$3.2 billion.

#### Disposals Down Slightly But Inventory Down Sharply

The Service disposed of 2.7 million delinquent accounts in 1972. This was a decline of 138,000 accounts or 4.8 percent below 1971. Delinquent taxes collected amounted to \$2.2 billion, which is \$265 million below 1971.

The relatively small reduction in disposals is evidence of notable accomplishment considering: (1) increased budgetary limitations; (2) heavy manpower demands imposed by the Economic Stabilization Program which drained 1.3 million man hours from this enforcement area; and (3) expanded Taxpayer Service activity instituted in April, which further limited available manpower.

For the second successive year, the inventory of delinquent accounts declined. The 1972 level of 659,000 accounts is the lowest point reached since 1965, and represents a reduction of 100,000 accounts, or 13.2 percent, below 1971. The \$1.9 billion value of these accounts is \$2.4 million less than the prior year's.

#### Taxpayer Delinquent Accounts

Status	Number (thousands)		Amount (thousand dollars)	
	1971	1972	1971	1972
Issued	2,821	2,619	\$3,509,677	\$3,211,863
Disposed, total	2,847	2,709	3,579,694	3,337,947
By type of action:				
Collected	2,265	2,164	2,498,077	2,232,953
Additional Collections	—	—	108,761	94,622
Other Disposals <sup>1</sup>	582	546	972,856	1,010,354
Pending June 30, total	759	659	\$1,899,804	\$1,897,384

<sup>1</sup> Includes disposals due to uncollectibility, erroneous and duplicate assessments, payment tracer and adjustment cases.

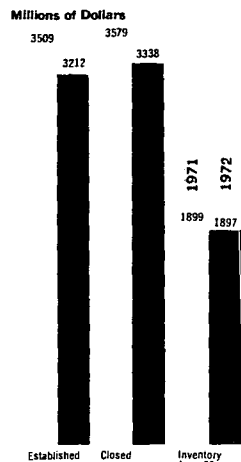
#### Programs for Federal Tax Deposit Offenders

The Service is concerned especially with the failure of employers to deposit taxes withheld from employees' wages because in effect, it represents a misappropriation of funds that belong to the Government. To combat the problem, the Service initiated a Federal Tax Deposit (FTD) Alert Program. The program involves early identification of potential offenders through use of data processing. The system determines which employers have failed to make deposits. A notice then alerts an enforcement officer who calls on the employer to determine why he has not complied.

#### Automatic Data Processing System Aids Program Against Delinquent Filers

The Service's automatic data processing system played a major role in detecting non-filers, first by monitoring and following up preselected types of delinquent accounts, and secondly by increasing the use of four master files to issue automatic delinquency notices or investigations. These factors permitted a greater development of enforcement personnel in seeking out non-filers, thereby reversing the fall-off that had occurred in recent years because of budgetary limitations.

#### Taxpayer Delinquent Accounts



#### Increase in Number of Delinquent Returns Secured

The Service secured 815,000 delinquent returns valued at \$452 million. This compares with 735,000 delinquent returns assessed at \$489 million in fiscal year 1971.

#### Master Files—The Operational Foundation of Tax Delinquent Returns Program

The business master file (BMF), the individual master file (IMF), the exempt organization master file (EOMF), and the residual master file (RMF) provide the operational foundation for a major portion of delinquent returns activity. Each has a routine tailored to meet variations in tax regulations and filing requirements and issues a delinquency notice or investigation in every apparent non-filer situation.

The business master file deals with several classes of tax. The Service can program BMF to deliver a single investigation for one or more tax periods during the year. This eliminates massive paperwork as well as multiple enforcement contacts, since the

computer will not issue another investigation or accept as satisfactory any completed investigation which does not satisfy all periods of delinquency.

The individual master file provides an annual delinquency check for instances of non-filing of individual income tax returns.

The exempt organization master file (EOMF) is relatively new. Programs implemented under EOMF provide for issuing delinquency letters and taxpayer delinquency investigations.

The residual master file (RMF) provides processing and handling operations for a variety of returns of limited volume or unusual characteristics which did not adapt well to earlier mechanization. The RMF also provides timely issuance of delinquency notices and subsequent delinquency investigations whenever required returns are not forthcoming.

Over half of all apparent non-filer cases are resolved through computer generated issuances. For tax year 1970, the individual master file selected over 500,000 non-filer cases for delinquency checking, over twice as many as ever before.

#### New Programs in Returns Compliance

Among several specialized programs in progress is a survey of 12,000 airport facilities across the country to insure compliance with tax provisions of the Airport and Airway Revenue Act of 1970. Another program involves a nationwide effort to achieve a higher level of compliance with Federal Highway Use Tax laws. Through use of available information, the Service will identify virtually all motor vehicles, or vehicle owners potentially liable for this tax. Expected benefits include a substantial revenue return and greater awareness of the tax requirements among all segments of the truck-owning public.

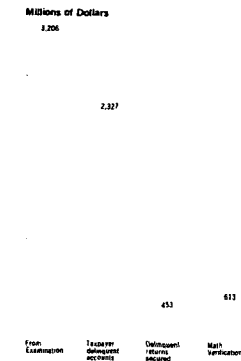
computer will not issue another investigation or accept as satisfactory any completed investigation which does not satisfy all periods of delinquency.

While actual tax liabilities of some taxpayers may be slight in comparison with their neighbor's, all taxpayers have an obligation to file what is required and pay what is due. Thus, the Service includes a significant number of individuals and smaller business entities.

#### Enforcement Approach Geared to Reduce Non-Compliance

The Service trains enforcement personnel to review all possible returns delinquencies whenever taxpayers are interviewed in apparent non-filer situations. For example, a self-employed individual, delinquent in filing an income tax return, may not have filed returns for recent income tax periods. The Service will also check for business tax returns if the taxpayer employs other people, or for excise tax returns if required.

#### Results from Direct Enforcement



#### Tax Fraud Investigations and the Intelligence Division

The Intelligence Division identifies areas of noncompliance and enforces the criminal sanctions of the Internal Revenue Code. The Intelligence function employed over 3000 technical and clerical employees in 1972.

#### Tax Fraud Investigations, Indictments, and Convictions

The Service completed 8,882 fraud investigations during the year, with prosecution recommended in 1,777 cases. Agents screened more than 132,000 allegations of fraud in selecting the investigative caseload.

Grand juries indicted 1,074 defendants in tax fraud cases in fiscal 1972. A total of 772 defendants pleaded guilty; courts convicted 113 defendants after trial and acquitted 39, and dismissed 137.

#### Intelligence Compliance Program

The Service conducted a program to identify patterns of noncompliance by homogeneous groups of taxpayers, and areas of noncompliance not covered in other programs.

Service investigators made compliance checks of more than 250 professions, occupations, businesses, industries, and income information sources. Among pockets of noncompliance located were sub-contractors in the construction industry, area managers in the direct selling industry, insurance salesmen, recipients of land condemnation awards, attorneys, and persons liable for highway use taxes. The Service imposes criminal sanctions where evidence of tax evasion is discovered, and takes remedial action to assure future compliance.

For example, offices in several areas inquired into compliance with reporting income requirements by private duty nurses. All offices found noncompliance where payments were made in cash without issuing information



documents (Forms 1099 or W-2). In one district, the State Nurses Association published an article on the results of the compliance test, advising nurses to report their income from private assignments.

Another project involved scrap metal and textile waste operators. Here, agents examined 258 returns and recommended deficiencies of \$488,307. They also recommended prosecution of five industry officials.

The impact on voluntary compliance is apparent. Agents examined returns of hospital medical employees who had not reported wages paid from scholarship funds. The major hospitals which had been paying employees from scholarship funds transferred \$500,000 annually to accounts to be included in future withholding tax statements.

Another investigation disclosed \$3.4 million in unreported income earned by policemen in a large metropolitan area. More than 1900 policemen had not reported on their tax returns earnings from private employers for police related security jobs, such as guarding property, crowd control, and watching for shoplifters. The police department assigned policemen on a rotation basis. Five employers paid the department which in turn paid the policemen. The department did not withhold tax or file information reports. City officials cooperated in correcting the situation.

A midwestern district found that house-to-house cosmetics sales can be big business. A revenue agent audited a parent corporation and recorded serial numbers of United Savings Bonds awarded as prizes to sales persons who sold at least \$3,000 in cosmetics during an eighteen-week period. The firm had awarded as prizes approximately \$4,000,000 in United States Savings Bonds. An inspection of the tax returns of known sales representatives disclosed that 80 percent either failed to file or made no mention of their selling activity.

The Service had found that zone managers receive millions of dollars in promotional expenses with no accounting required nor withholding statements issued. One company disburses about \$650,000 in promotional expenses each year. This same company pays commissions of about \$11,000,000 a year of which only \$3,000,000 appears on information returns.

#### Sentencing in Tax Evasion Cases

Nationwide, only 43 percent of those convicted in income tax cases received jail terms. Comparisons of the sentencing practices by judicial districts reflect wide disparities.

In the first quarter of 1972 for example, courts in the Eastern District of Michigan handed down 10 sentences and imposed no prison terms. Four of the cases involved additional taxes and penalties of \$95,250, \$203,552, \$191,399, and \$164,664. During the same period, the court in the Central District of California ordered no confinements for six tax evasion convicts. On the other hand, tax violators go to jail in the Southern District of Texas. Three recent sentences included a six-month term and two four-year terms.

In Philadelphia, courts ordered confinement for ten income tax evaders. They are: EDWARD P. SWARTZ, a physician and former Public Health Director, six-month jail sentence; MORRIS WEINER, a prominent dress manufacturer, a one-year prison sentence; JOHN C. PARENTI, a major racketeer, a one-year prison sentence; IRVING H. MYERS, a business executive, a one-year sentence; PAUL G. HOFFMAN, a restaurant operator, 100 days imprisonment; ANTHONY KLIJJIAN, a roofing contractor, six months imprisonment; ANTHONY LEMISCH, a voting machines salesman, six months imprisonment; WILLIAM J. KILROY, a "political expeditor", 90 days imprisonment; LOUIS SALERNO, 60 days imprisonment; and FRED L. MATHERN four months imprisonment. Some of these defendants also paid large fines.

#### Interesting Cases

The court fined Dan B. Ball, a former county judge, \$30,000 and placed him on five years probation for evading part of his income taxes over a four-year period. During these four years, he prepared more than 800 income tax returns for other people.

John S. Allesio, a race track official, received three years in prison and a \$20,000 fine for income tax evasion; and his brother, Angelo Allesio, also associated with the race track, received a sentence of one year in prison and a fine of \$20,000. Additional taxes and penalties in the case exceeded \$6,000,000.

Gregory Taylor, a narcotics distributor, received a sentence of five years in prison and a fine of \$30,000 for income tax evasion. A lengthy arrest record and several previous prison confinements, plus the cooperation of the U.S. Bureau of Engraving and Printing helped to refute his claim of a cash hoard used to pay for substantial real estate, automobiles, jewelry, and other expenditures.

Lee W. Merrich, a dog food processor, received a sentence of eighteen months in prison for income tax evasion on unreported sales of \$170,000. Cooperation from Canadian tax authorities made it possible to locate currency deposits of \$142,000 in a Canadian bank account. He had made the bulk of unreported sales to a wholesaler of meat for human consumption. This meat came from the same supply processed for dog food sales.

Morris Greenberg, an attorney, received a sentence of ninety days in prison and a fine of \$10,000 for failure to file interest equalization tax returns. One incriminating factor was a letter he had written to a Canadian stock transfer agent explaining the interest equalization tax provisions.

Emmett J. Ayo, a night club operator, received a sentence of three years in prison for income tax evasion after understating income by \$228,000 over a four year period.

Phillip Armento, Sr., a county assessor, received a sentence of three years in prison for income tax evasion. This scheme involved special handling of personal property tax bills and real estate valuations for fees not reported on his tax returns.

Lionel E. Clark, a former county judge received a sentence of one year in prison for failure to file income tax returns for four years. During this period his gross income was \$62,352.

Nelson E. Weber, an aircraft insurance executive, received a prison term through revocation of probation of a previous tax evasion sentence. Part of the conditions of probation involved full settlement of his \$170,000 tax liability. Instead, he filed an offer in compromise proposing to settle his liability for \$10,000 based on stated assets of only \$13,000. Agents discovered an undisclosed safe deposit box containing over \$219,000. They seized the money to apply to his tax liability.

James G. Waller, a funeral home director, received a sentence of three years in prison for understating business receipts by \$210,000.

#### Referrals to the Department of Justice

This year, the Service forwarded prosecution recommendations to the Department of Justice in 1,355 income and miscellaneous criminal cases (involving 1,364 prospective defendants). Compared with the prior year, this was an increase of 33 percent in the number of referrals. In 1972, indictments in such cases were up 13 percent.

In income, excise, and wagering tax criminal cases, the court results included: 733 guilty or nolo contendere (no contest) pleas, 113 convictions after trial, 40 acquittals, and 151 dismissals.

A comparison of indictments and court actions for the last two years follows:

Results of criminal action in tax fraud cases

Action	Number of defendants	
	1971	1972
<b>Total</b>		
Indictments and informations	956	1,085
Disposals, total	997	1,037
Plea, guilty or nolo contendere	645	733
Convicted after trial	142	113
Acquitted	57	40
Not-prosessed or dismissed <sup>1</sup>	153	151
Income and miscellaneous cases <sup>2</sup>		
Indictments and informations	952	1,074
Disposals, total	961	1,011
Plea, guilty or nolo contendere	638	722
Convicted after trial	136	113
Acquitted	55	39
Not-prosessed or dismissed <sup>1</sup>	132	137
Wagering Tax Cases		
Indictments and informations	4	11
Disposals, total	36	26
Plea, guilty or nolo contendere	7	11
Convicted after trial	6	0
Acquitted	2	1
Not-prosessed or dismissed	21	14

<sup>1</sup> Includes cases dismissed for the following reasons: 10 because of death of principal defendant, 6 because of serious illness, and 102 because principal defendant had pleaded guilty or had been convicted in a related case.

<sup>2</sup> Includes income, estate, gift, and excise taxes other than wagering, alcohol, tobacco, and firearms taxes.

#### Cases Involving Criminal Prosecution

Cases received in the Chief Counsel's Office with recommendations of criminal prosecution involved additional taxes and penalties of \$193 million. This was \$14 million more than the prior year. An analysis of the receipt and disposal of criminal cases in the Chief Counsel's Office follows:

Receipt and disposal of criminal cases in Chief Counsel's Office

Status	1971	1972
Pending July 1	2,206	2,457
Received, total	1,313	1,680
With recommendations for prosecution	1,204	1,523
With requests for opinion, etc.	109	157
Disposed of, total	1,052	1,285
Prosecution not warranted	79	94
Department of Justice declined	48	57
Prosecutions	759	1,009
Opinions delivered	46	58
All other closings	120	167
Pending June 30	2,457	2,762

(Millions of dollars)

Item	1971	1972
<b>Internal revenue collections, total</b>	<b>191,647</b>	<b>209,858</b>
Individual income taxes, total	100,752	108,879
Withholding	76,490	83,200
Other	24,262	25,679
Corporation income taxes	30,320	34,328
Estate and gift taxes	3,784	5,490
Employment taxes	39,918	43,714
Excise tax	16,872	16,847
<b>Income, Estate, and Gift Taxes</b>		
<b>Civil Cases</b>		
Additional tax and penalties in cases disposed of in audit divisions by agreement, payment or default	1,499	1,419
Additional tax and penalties in cases disposed of in appellate divisions by agreement, payment or default	349	401
Additional tax and penalties determined by settlement in Tax Court	101	106
Additional tax and penalties determined by Tax Court decisions:		
Dismissed	21	9
Decisions on merits	22	17
Additional tax and penalties in cases decided by Supreme Court and courts of appeals	9	26
Amount refunded to taxpayers as a result of refunds suits	57	48
<b>Fraud cases<sup>1</sup></b>		
Deficiencies and penalties in cases disposed of in intelligence divisions:		
Prosecution recommended	172	223
Prosecution not warranted and cases declined by Department of Justice	25	52

<sup>1</sup> Includes excise taxes

Grass tax, penalties and interest resulting from direct enforcement

(In Thousands of dollars)

Item	1971	1972
<b>Additional tax, penalties, and interest assessed, total</b>	<b>4,022,705</b>	<b>4,271,407</b>
From examination of tax returns, total	2,708,183	3,205,724
Income tax, total	2,250,683	2,683,282
Corporation	1,503,633	1,727,241
Individual and fiduciary	747,250	956,021
Estate and gift tax	345,210	380,523
Employment tax (including withheld income tax)	62,508	95,234
Excise tax	49,552	38,305
From mathematical verification of income tax returns	313,052	238,982
From verification of estimated tax payments claimed	512,141	374,377
From delinquent returns secured, total	489,359	452,324
By district collection divisions	427,647	380,976
By district audit divisions	61,712	71,648
Delinquent taxes collected, total	2,606,838	2,227,585

Tax and penalty and number of tax years involved in criminal fraud case disposals

(Exclusive of wagering and coin-operated gaming device cases)

Disposition	Tax years		Tax and Penalty	
	1971	1972	1971	1972
Total	2,953	3,344	\$107,778,423	\$77,812,774
Prosecutions	2,509	2,890	70,447,957	55,377,287
All other closings <sup>1</sup>	444	454	37,330,466	22,535,477

<sup>1</sup> Includes cases declined by Department of Justice.

### Summary of Additional Taxes from Direct Enforcement

Additional revenue resulting from direct enforcement historically has represented a relatively small part of total tax collections. The main importance of direct enforcement cannot be expressed in dollars. Its importance lies in reassuring the public that the Service has an effective enforcement system, and a balanced program aimed at equitable enforcement of the law for all taxpayers, regardless of position or wealth.

The table below sets forth for the last two years the source of additional tax, penalties, and interest assessed and certain other results of direct enforcement.

### Workflow in the Service and the Courts

The unit of measurement at the audit level is a return. In the Appellate and Intelligence Divisions, as well as in the courts, the work unit is the case. A case may involve more than one return and more than one taxpayer. The table at the right reflects comparative data on actions completed by the Service during 1971 and 1972.

Workflow in the Internal Revenue Service and the courts, fiscal years 1971 and 1972

Items	Returns	
	1971	1972
<b>Tax returns filed, total</b>	<b>111,446,930</b>	<b>112,000,449</b>
Individual income	76,619,563	77,105,693
Corporation income	1,820,556	1,820,819
Estate and gift	314,913	383,576
Employment	21,889,343	22,007,335
Excise	1,400,704	1,310,812
Other income	9,401,851	9,312,214
<b>Income, Estate, and Gift Taxes</b>		
Number of returns examined (including forms 990)	1,529,454	1,537,302
Returns with adjustments proposed by audit divisions	1,006,325	1,024,005
Disposed of by audit divisions:		
Agreed, paid, or defaulted	956,311	983,216
Transferred to appellate	46,119	36,723
Other	3,895	4,056
<b>Civil cases</b>		
Total received in appellate division	22,061	22,204
Disposed of by appellate divisions: Agreed, paid, or defaulted	20,277	18,893
<b>Courts of original jurisdiction:</b>		
<b>Tax court:</b>		
Total petitioned to Tax Court	8,299	8,949
Dismissed	567	954
Settled by stipulation	6,187	6,673
Settled by Tax Court decision	806	880
Decided by Tax Court, but appealed	338	258
<b>District courts and Court of Claims:</b>		
Total filed in district courts and Court of Claims	1,177	1,442
Settled in district courts and Court of Claims	647	836
Decided by district courts and Court of Claims	450	480
<b>Court of Appeals:</b>		
Settled by courts of appeals decision	355	463
Favorable to Government	237	299
Favorable to taxpayers	95	128
Modified	23	36
Decided by court of appeals but reviewed by Supreme Court	4	5
Supreme Court: Settled by Supreme Court decision	4	5
<b>Fraud cases<sup>1</sup></b>		
Received for full-scale investigation in intelligence divisions	2,482	2,840
Disposed of by intelligence divisions:		
Prosecution recommended	1,379	1,785
Prosecution not recommended	1,142	1,486
Disposed of by Office of Chief Counsel:		
Prosecution not warranted, including cases declined by the Department of Justice	127	151
Prosecutions	759	1,009

<sup>1</sup> Includes excise tax cases.

### End of Era in Regulated Operations

The Internal Revenue Service's responsibility for regulation of the alcohol and tobacco industries to assure compliance with various Federal requirements ended at the close of fiscal year 1972 after 110 years. This responsibility and firearms control activities, have been transferred to the Treasury Department's Bureau of Alcohol, Tobacco and Firearms. In 1972 the number of plants regulated remained fairly stable, as did the number of activities requiring compliance inspections. The table at the right and the first table on the next page reflect production volume and revenue control manpower use for fiscal year 1972.

Production by alcohol and tobacco industries, fiscal year 1972

Distilled spirits <sup>1</sup>	764.4 million tax gallons
Rectified distilled spirits	120.7 million proof gallons
Still wine	389.1 million gallons
Effervescent wines	22.9 million gallons
Vermouth and other special natural wines	64.5 million gallons
Beer	140.3 million gallons
Large cigars	6.4 billion
Small cigars	165.6 million
Cigarettes	596.6 billion

<sup>1</sup> 281.7 million gallons removed from bonded storage after determination of taxes due (includes 30.3 million gallons of imported spirits transferred from Customs custody to bonded storage); 525.3 million gallons tax free; 1,107.6 million gallons in bonded storage at end of year.

## Liquor Law Enforcement

Extensive use of manpower to meet expanded enforcement and regulatory responsibilities associated with intensified firearms and explosive programs has had an impact on illicit liquor investigations. In 1972, the Service used only 29.4 percent of the investigator force for liquor law enforcement.

Illicit distillery seizures for 1972 totaled 2,090, compared to 2,272 in 1971. Similar declines occurred in seizures of mash and non-tax paid spirits. A more detailed summary of accomplishments in liquor law enforcement is shown below.

Seizures of most of the nation's illicit distilleries occur in the Southeast Region and portions of the Central and Southwest Regions. The overwhelming majority of these operations exist in the rural areas of Alabama, Georgia, South Carolina, North Carolina, Mississippi, Tennessee, and Florida.

"Operation Dry-Up," a program employing heavy concentration of Federal officers in three states of the Southeast Region, continues to curb non-taxpaid whiskey traffic. This, along with stringent sentences in some court districts, has reduced the number of persons deriving income from unregistered distilleries.

### Revenue Growth—

#### Alcohol and Tobacco Taxes

Distilled spirits revenue rose to \$3.761 billion in fiscal year 1972, and tobacco taxpayments increased to \$2.207 billion in the same period. The following table presents data on alcohol and tobacco tax collections reflecting the growth from 1863 to 1972.

Revenue growth of alcohol and tobacco industries

(Amount—Thousand Dollars)	1863	1972
Distilled Spirits	3,300.0	3,760,915.0
Wine	8.8	181,223.0
Beer	1,558.1	1,167,863.0
Tobacco Products	3,055.6	2,207,273.0

#### ATF revenue control manpower use

	1971	1972
Plants and permittees subject to IRS regulatory control (excludes retail liquor dealers):		
Inspector man-years realized	831	850
On-site inspections completed	22,673	21,635
Days of industry operation requiring on-premises supervision	134,040	135,871
Permits issued, amended and terminated	24,471	21,492
Claims, offers-in-compromise and assessments reviewed and processed	39,146	36,466

#### Results of criminal action in alcohol and tobacco cases

Action	Number of defendants	
	1971	1972
Indictments and information	3,054	3,029
Disposals, total	3,169	3,004
Plea, guilty or nolo contendere	2,166	2,115
Convicted after trial	612	478
Acquitted	107	149
Not-prossed or dismissed	284	271

#### Seizures and arrests for alcohol and tobacco violations

Item	1971	1972
Seizures:		
Distilleries	number 2,272	2,090
Stills at distilleries	do 3,327	2,981
Non-taxpaid distilled spirits	gallons 78,878	67,582
Mash	do 1,387,986	1,238,917
Vehicles	number 815	790
Property (appraised value)	dollars 1,071,138	1,490,566
Arrests	number 3,222	3,191

### Alcoholic Beverage Advertising, Labeling, Trade Practices

Distillers, blenders and bottlers of spirits, producers and blenders of wine, and wholesalers and importers of all alcoholic beverages, operate under permits subject to suspension or revocation for any violation of Federal liquor laws. In 1972, the Service revoked two permits and suspended one permit while closing 83 cases involving violations of the Federal Alcohol Administration Act and the Internal Revenue Code through acceptance of offers-in-compromise totaling \$106,900.

Advertising of alcoholic beverages must conform to statutory and regulatory requirements and prohibitions. To insure compliance, the Service examines advertising in a selected grouping of newspapers and magazines of general circulation, and trade publications. Service personnel examined more than 18,000 publications containing alcoholic

beverage advertisements during the year. In addition, comment is offered on proposed advertising themes or campaigns submitted for examination.

Bottlers of distilled spirits, wines and malt beverages, and importers of such products, must obtain certificates of label approval (or certificates of exemption from label approval for intrastate bottling) prior to removal of bottled goods from establishments or Customs custody. This year, the Service approved 55,955 certificates of label approval and disapproved 766 labels covering all classes and types of alcoholic beverages.

### Alcohol, Tobacco and Firearms Laboratories

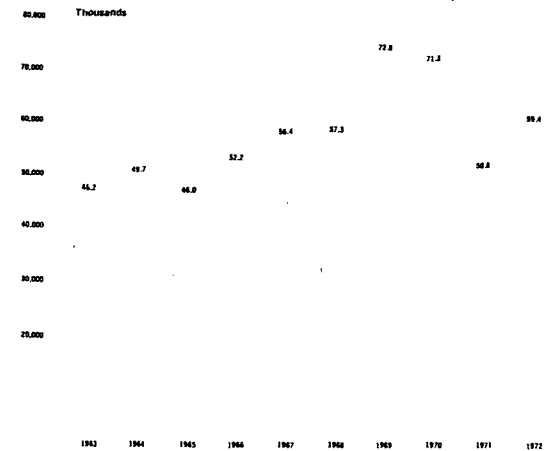
Sophisticated equipment and additional space enabled the National Office Laboratory and the three field laboratories to broaden the services offered in law enforcement and revenue control. The number of criminal enforcement samples continued to increase. In 1972, the Service analyzed 46,542 samples compared to 33,374 in fiscal 1971.

#### Chemical Staff Activities

The laboratory received a large number of requests for non-alcoholic beverage flavors for special natural wines. Since artificial colors are not permitted in special natural wines, the laboratory is developing less time-consuming artificial color tests using thin layer chromatography.

In addition, the laboratory monitors various commercial wines for sodium content and pesticide residues and checks manufacturing processes of denatured alcohol users for discharges of waste materials. The staff authorized toluene as an alternate denaturant for two denatured alcohol formulas after reports that Benzene is a suspected carcinogenic agent. The laboratory also developed a method of Differential Solvent Extract to differentiate between small cigars and cigarettes.

#### CERTIFICATES OF LABEL APPROVAL ISSUED



### Forensic Staff Work

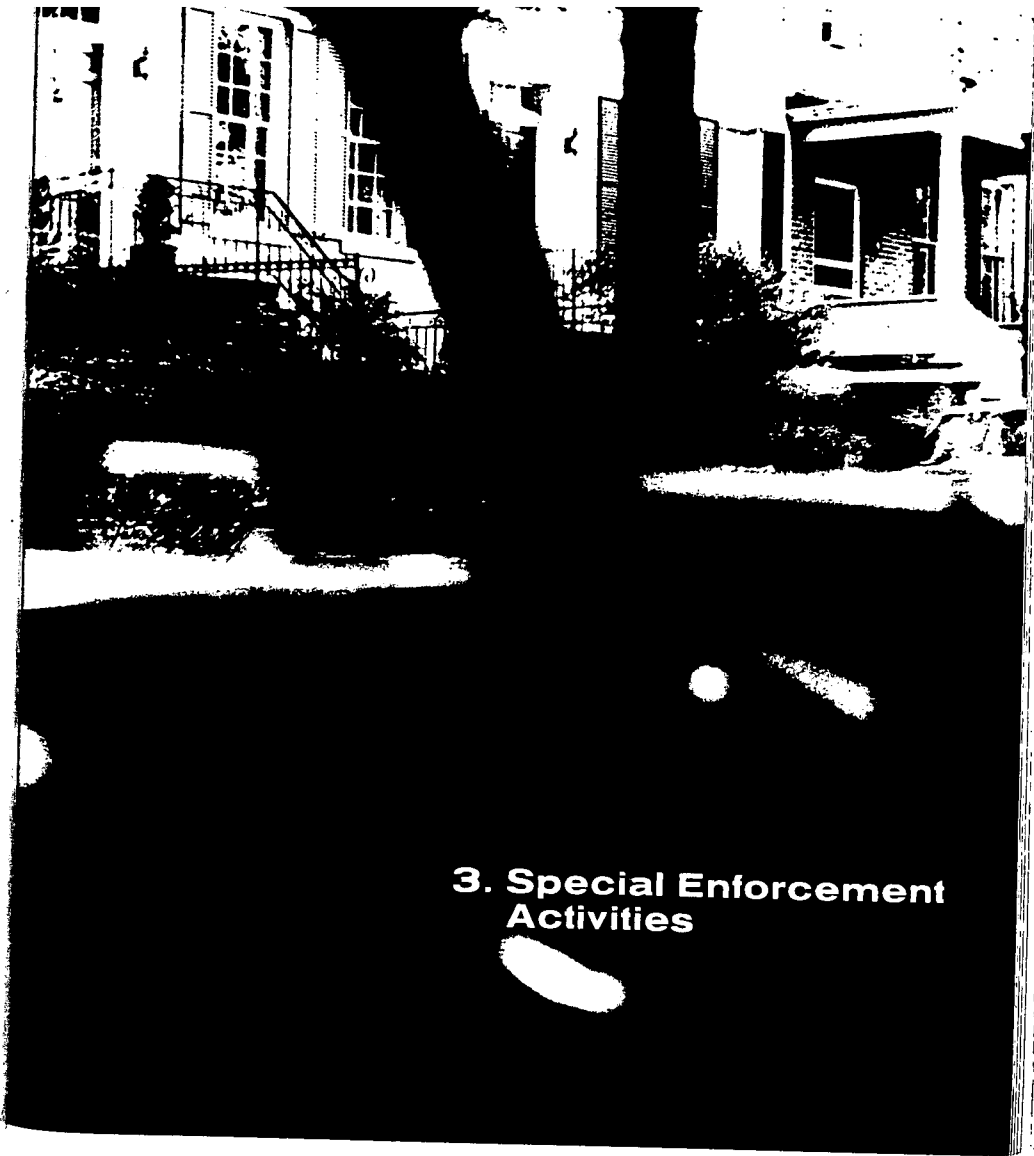
In fiscal 1972, the Forensic Laboratory workload almost doubled. The staff examined approximately 23,000 physical evidence samples connected with 3,230 cases involving illicit firearms and destructive devices, illicit liquor conspiracies, income tax frauds, and other crimes. The photo laboratory processed about 80 requests per month for photographs of questioned documents. The staff also performed numerous special photo assignments for use in court cases.

The laboratory staff processed more than 735 bomb cases and approximately 344 document cases. The Service used successfully in court cases much of the evidence examined in connection with firearms and bomb offenses. Substantial increases occurred in firearms examinations involving tool marks, ballistics, gunshot residue, gunshot patterns and bullet identification. The number of physical evidence samples submitted in connection with illicit distillery operations remained nearly the same as last fiscal year.

#### Formulas and Labels examined

Type	1971	1972
Formulas for nonbeverage food, flavors and medicinal products	2,010	2,100
Formulas for specially denatured articles	3,897	4,151
Label requests for alcoholic toiletries, medicines, etc.	8,286	6,873
Rectified products	1,197	1,089
Wine	215	293 <sup>1</sup>

<sup>1</sup> Increase in wine formulas reflects apparent consumer acceptance of the currently popular sweet-flavored wines.



**3. Special Enforcement  
Activities**

## Audit Contribution to Strike Force Activities

The Audit Division contributes leads and expertise in reconstructing complicated financial transactions which help other Federal agencies obtain indictments for violations outside of the Service's jurisdiction. It has asserted substantial tax liabilities within the Service's jurisdiction. The table at the right reflects the effort expended and results obtained.

Audit Strike Force Accomplishments

Period	Revenue Agents Assigned	Closed Examinations	Recommended Additional Tax & Penalties (millions)	Pending Examinations
1967-1970	176	1,302	\$ 22.1	2,368
1971	351	2,731	\$105.6	3,708
1972	549	5,894	\$254.8	2,866

\$1.3 million in other property after the spontaneous assessments. The largest seizure occurred in New York on April 29, 1972, when investigators discovered \$1,078,100, a part of which was concealed in a basement wall and the remainder found buried in the backyard of a convicted heroin distributor.

*The neat stacks of money on the desk amount to \$1,078,100.00. The money had been concealed at the home and in the garden of a convicted heroin distributor. Service agents discovered and seized the money for application as a partial payment against his Federal tax liability. Pictured below (l. to r.) are Martin Pollner, Director of Law Enforcement, Treasury Department; Daniel Casey, Narcotics and Dangerous Drugs Director; and Elliott Gray, Director of Internal Revenue, Manhattan District.*



*The money so neatly stacked on the desk in the picture above is shown here in its hiding place as discovered by Service agents.*

## The War Against Narcotics Traffickers

In June 1971, the President called for an increased effort to combat the growing problem of drug abuse. The Service set up a special program to conduct tax investigations on key figures engaged in narcotics traffic. The objectives are to prosecute those who have committed criminal tax violations and to reduce drastically the profits from the illicit drug traffic by assessing taxes and penalties on unreported profits. The Service has assigned 189 revenue agents, 268 special agents, and 110 clerical support personnel to the project. A Target Selection Committee composed of Treasury's Director of Law Enforcement, with members from the Bureau of Customs, the Bureau of Narcotics and Dangerous Drugs, and the Audit and Intelligence Divisions of the Internal Revenue Service establishes criteria and identifies subjects for investigation. The committee identified 697 targets in 49 districts for joint investigation and 94 for independent audit. Agents completed 155 cases and recommended prosecutions of 56 persons. Of those, 7 have been indicted and convicted. Additional tax and penalties of 43 million have been assessed or recommended for assessment. In addition, the Service issued spontaneous assessments (terminations of taxable years and jeopardy assessments) amounting to \$49.9 million. Agents seized \$7.2 million in cash and

## Organized Crime and Strike Forces

There is no glamour in the underworld. Contrary to the image portrayed on movie and television screens and in publications of fiction, organized crime is a vicious, dirty business. It is as real as this year's tax bill, and it is characterized by violence. In the past year, for example, gangland violence erupted to take the lives of seven men in a ten day period.

The Government combats organized crime through the Strike Force concept which melds the investigative resources of various Federal agencies. Although all Federal law enforcement agencies participate, the Internal Revenue Service supplies more than half of the agent manpower to the 18 Strike Forces strategically located throughout the country. Agents from the Audit, Intelligence, and Alcohol, Tobacco, and Firearms Divisions participated in the program. This year, Service activity in the Strike Force Program established new records in criminal and civil enforcement.

The protection of witnesses in the Service's probe of the underworld is a difficult task. In cooperation with other law enforcement agencies, the Service provides around-the-clock protection when needed, and, where necessary, assists in the relocation of witnesses and their families.

The success of any program is measured by its results. During fiscal year 1972, investigative efforts by the Service helped to produce 355 indictments. Other accomplishments follow.

A grand jury returned an indictment against a District Attorney on charges of filing false income tax returns and bribery, illegal gambling, and obstruction of local law enforcement. The same charges were filed against nine others, including two high ranking police officers and major operators of illegal gaming devices.

Strike Force investigations resulted in indictments against the world's largest manufacturer of slot machines and pinball machines, the company's president, and several others, including two brothers of the area's crime boss.

Investigative efforts produced an indictment of a United States Congressman. The Congressman is charged with income tax evasion, perjury before the grand jury, and conspiracy to impede the administration of the Internal Revenue laws. The conspiracy charge alleges that the Congressman assisted the former Mayor of Jersey City and the former Jersey City Council President in concealing a large amount of cash to hide their true income tax liabilities.

Hugh Addonizio, a former Mayor of Newark, Anthony La Morte, former Public Works Director, and Joseph Biancone, syndicate enforcer, lost final appeals to the U.S. Supreme Court and began serving ten year sentences. The U.S. Attorney remarked: "The incarceration of former Mayor Hugh J. Addonizio gives confidence to all decent law abiding citizens that those who abuse and corrupt their high political office for their self-enrichment can be brought to account within our judicial system."

Anthony Russo pleaded guilty to charges of failure to file corporate tax returns for two firms in which he was the principal officer. He received 18 months imprisonment and a \$50,000 fine.

Investigation of a conspiracy in Kansas City resulted in the indictment and arrest of an organized crime figure involved in narcotics traffic, prostitution, income tax evasion and hidden ownership in taverns.

Donald Dawson, described as one of the biggest interstate bookmakers in the Midwest, received a prison term of one year. The Service is assisting other agencies in bringing law violators to justice. This is especially visible within the operations of various Strike Forces. In Detroit, the Service furnished information to the Federal Bureau of investigation on loan sharking operations, and coordinated with other elements in identifying night clubs owned by organized crime subjects but titled in the names of nominees.

The Service continues to receive outstanding cooperation from the Royal Canadian Mounted Police. They were especially helpful in the recent location, identification, and apprehension of a fugitive who had entered Canada under an assumed name. The fugitive has been returned to the United States to face trial on a \$700,000 tax evasion charge.

Strike Force investigators also combat corruption in governmental agencies. This year they uncovered a conspiracy to deprive the poor people of Calumet, Indiana of benefits from the food voucher program. Investigative efforts resulted in the conviction of Davage Minor, a former investigator in the office of the Calumet Township Trustee. He had funnelled food vouchers intended for the poor through local grocery stores, and split proceeds between public officials and the store owners. Two other employees of the Trustee's office entered guilty pleas to charges of tax evasion and received prison terms.

In a recent investigation, using the team approach, agents investigated a notorious organization purportedly engaging in multi-kilo narcotics trafficking, gambling, and prostitution. They were assisted by twelve agents from the offices of the City District Attorney, City Sheriff, City Police Department, State Bureau of Narcotics, U. S. Bureau of Narcotics and Dangerous Drugs, and the Bureau of Customs. The combined efforts produced probable cause for search warrants, 20 arrests, and numerous leads to tax evasion cases.

New procedures and techniques reduce the time required for completing financial investigations. The use of computers will facilitate scrutiny of the finances of each of the drug traffickers. By computerizing this information each year, the Service will be able quickly to examine each trafficker targeted under the program.

#### Foreign Financial Transactions

Newly issued Treasury Regulations under Public Law 91-508 require financial institutions to retain records that will facilitate reconstruction of international and domestic banking transactions. The same regulations also require reporting international transportation of currency or monetary instruments in amounts exceeding \$5,000.

The Service participated in drawing up treaties which would permit agents to obtain tax information from countries whose bank or economic secrecy laws have been used in evasion schemes. The proposed mutual assistance treaty with Switzerland is one instance in which the Service made significant contributions. The Service also developed information on the need for treaties with other countries whose financial facilities are used to impede enforcement efforts.

The Service concluded a significant criminal tax case involving use of foreign facilities when Irving Braverman and Sidney Rosenstein received sentences in the Southern District of New York, and paid fines of \$100,000 each. Braverman and Rosenstein are manufacturers' representatives who specialized in sales to military post exchanges. The government contended that Braverman and Rosenstein secretly formed a Liechtenstein company and diverted untaxed commissions to that company's account in a Swiss bank. Criminal charges included the evasion of income taxes totalling more than \$1,600,000.

#### New Developments in the Firearms Program

The conversion of the National Firearms Registration and Transfer Record to an automated system of filing and retrieval is near completion. The Service has placed approximately 200,000 records of registrations and

transfers of firearms and destructive devices in the Miracode Retrieval System. The system provides instant response to field inquiries and eliminates misfiling, while saving space, time, and manpower.

Firearms experts developed bullet trap and sound measurement instrumentation to test silencers. The equipment has been used successfully at several court trials.

#### Firearms Program Intensified

In 1972, the Service expended 1,146 investigator man-years on firearms work, up 299 man-years from 1971. Firearms investigations produced 3,341 criminal cases, arrests of 2,507 violators and the seizure of 7,142 firearms. These figures compared with 2,785 criminal cases, 2,223 violators arrested and 7,995 firearms seized in 1971.

Service investigations of the activities of 62,423 licensed gun dealers increased in 1972. These investigations disclosed 3,143 purchasers of firearms who had criminal records, used fictitious names, or furnished other false information in purchasing firearms. Additional accomplishments under the Firearms program are set forth in the table below.

Results of criminal action in firearms cases

Action	Number of defendants	
	1971	1972
Indictments and information	1,906	2,645
Disposals, total	1,691	2,420
Plea guilty or nolo contendere	784	1,119
Convicted after trial	372	448
Acquitted	114	168
Nol-prossed or dismissed	421	685

#### Firearms Licenses and Permits

In 1972, Service investigators made 31,259 license application investigations and 31,164 compliance investigations, compared to 20,088 applications investigations and 23,684 compliance investigations in 1971. Under the import provisions of the Gun Control Act, the Service received 22,320 permits to import 1,199,614 guns compared to 26,658 permits covering 964,122 firearms processed in 1971.

#### Federal Gun Control at Work

The effectiveness of the Federal firearms laws in bringing criminals to justice is best illustrated by actual cases. A few examples follow:

In Connecticut, two employees of a firearms manufacturer stole automatic rifles from the plant by breaking down, concealing and removing the parts and reassembling the rifles. The defendants sold the stolen rifles to eight persons. One of the rifles is believed to have been used in a bank robbery in New Britain, Connecticut. The defendants have been charged with unlawful receipt, possession and transfer of unregistered firearms and with engaging as a firearms dealer without a license. Their associates have been indicted on six counts in companion cases by reason of the sale of six of the stolen firearms to undercover investigators in New York.

A gun store in New Hampshire was robbed of 44 weapons, including shotguns, rifles and handguns. The stolen firearms were subsequently transported to Massachusetts where they were sold to a "fence." Service investigators gathered sufficient information to obtain arrest warrants for 21 defendants.

After an intense Service investigation, three defendants were convicted in Miami, Florida, for manufacture and possession of firearm assassination kits. They received prison terms of 20 years.

An undercover investigation by the Service resulted in the purchase of an illegal machine gun from a member of a radical group. A subsequent seizure involved explosives, hundreds of rounds of ammunition, and eight additional machine guns.

Service investigators arrested a defendant and raided an illegal machine gun factory. Machine guns, silencers, and miscellaneous parts were seized.

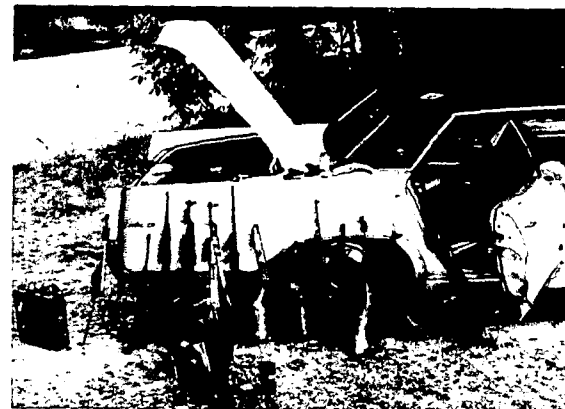
On March 13, 1972, Service investigators in Honolulu, Hawaii, arrested four men after the undercover purchase of two sawed-off shotguns and one sawed-off rifle. It was later they learned that one of the subjects, armed with a handgun at the time of arrest, had intentions of killing the Service and Customs agents assisting in the case. The murder of the agents, was to take place immediately after the shotgun sale. It was prevented by the quick action of backup agents on the scene.

Seizures and arrests for firearms violations

Item	1971	1972
Seizures:		
Firearms	number 6,910	7,142
Destructive devices	do 1,085	699
Vehicles	do 344	237
Property (appraised value)	dollars 844,613	669,703
Arrests	number 2,223	2,507

Service investigators seized 7,841 firearms and destructive devices in 1972. Weapons such as those pictured below, seized in New York State, pose a potential threat to the well-being of all citizens. The weapons seized included sawed-off rifles and shotguns, automatic weapons, and destructive devices.

Weapons seized by AT&F investigators in New York state.



### Bombs and Explosives

The assignment of jurisdictional responsibility for Title XI of the Organized Crime Control Act of 1970 has led to the development of new procedures and techniques for perfecting cases involving destructive devices, explosives, incendiaries, and other materials.

Some significant cases investigated by the Service involving use of explosives follow:

In January 1972, Service investigators assisted by the Woburn, Massachusetts Police Department arrested 15 persons on charges of conspiracy to make incendiary bombs, making and possessing incendiary bombs, and destruction of a motor vehicle. The arrests climaxed a 15-month investigation of firebombings of a school in North Woburn, Massachusetts.

Investigation of a bomb incident in Chattanooga, Tennessee, led to the arrest and conviction of a long-time whiskey violator. Analysis of parts of the bomb disclosed the latent prints of the individual arrested.

In February 1972, Service investigators working undercover foiled a plot to blow up railroad junctions and electric transmission lines in the Lehigh Valley of Pennsylvania. They seized eleven bombs, numerous firearms, and a quantity of dynamite.

The babblings of an attempted suicide victim recovering from an overdose of barbituates caused Alcohol, Tobacco and Firearms investigators to spend a day and a half in a boobytrapped farm house. Two investigators acting on the victim's information proceeded to his house located some 45 miles from town. They were stopped at an improvised roadblock by two deputized farmers armed with shotguns who stated that they had heard that the suspect was crazy and was in the vicinity. After identifying themselves, the investigators proceeded. Several miles later they were again stopped by the same deputies and asked to identify themselves again. They said that the suspect was very clever and might have disguised himself as a government man.

Once again allowed to proceed, the investigators arrived at the farm house to find it equipped with a high fence, a watch tower and a two-wheel cannon made from well casing and fired remotely by an electrical device. They found the fence gate equipped with a buzzer and microphone.

As one investigator moved to use the buzzer, the other grabbed his arm and pointed to a wire leading to a mound of dirt at their feet. Both investigators immediately took cover in a ditch only to discover another wire and mound of dirt beneath them. Neither bomb detonated.

Noting suspicious diggings near the house and suspecting the yard might be mined, the investigators borrowed horses from a nearby pasture and stampeded them through the yard. No mines or bombs detonated.

Upon approaching the house, the investigators saw four sticks of capped dynamite taped beneath the porch and a wire leading into the house. Closer examination showed all windows and doors rigged with electrical switches. Since the regular entries to the house could not be used, the investigators entered by means of a hole sawed in the living room wall.

In a bedroom of the unoccupied house the investigators found a bomb made of 238 sticks of dynamite wired to the house circuit. Various other rooms in the house contained 19 bombs.

They then began the long process of decapping the dynamite and defusing the bombs. By tracing the lead wires, the investigators discovered that the bombs were connected to a telephone type control panel with key and toggle switches designed to remotely fire the charges collectively or one at a time. They rendered all the devices safe and removed them.

The suspect and owner of the house was an unemployed electrician. He was deeply in debt and planned to blow himself up along with any officers who might try to arrest him. He received a sentence of 10 years in prison for illegal possession of 23 destructive devices.

### Training in Bomb Scene Searches

Alcohol, Tobacco and Firearms investigators received intensive training in bomb scene searches necessary to carry out their responsibility of enforcing Title XI of the Organized Crime Control Act of 1970 (Regulation of Explosives). The intent of the act is to curb the criminal misuse of explosive materials and regulate the legitimate explosives industry.

### Assistance to State and Local Law Officials

The Alcohol, Tobacco and Firearms Division provided extensive investigator training to State and local law enforcement agencies in a program sponsored by the Law Enforcement Assistance Administration of the Department of Justice.

### Results of criminal action in explosives cases

Action	1971	1972
Number of cases	69	266
Number of defendants	66	406
Explosives seized (lbs.)	1,702	4,325

The instruction spans investigatory skills and techniques, law (rules of evidence and criminal procedure), and such functional training as bomb scene searches, use and handling of explosives, and firearms investigations.

During fiscal year 1972, the Service conducted six, two-week and two, one-week investigator training schools for State and local officers in Maine, Vermont, Georgia, Virginia, Texas, New York, Iowa and Nebraska.

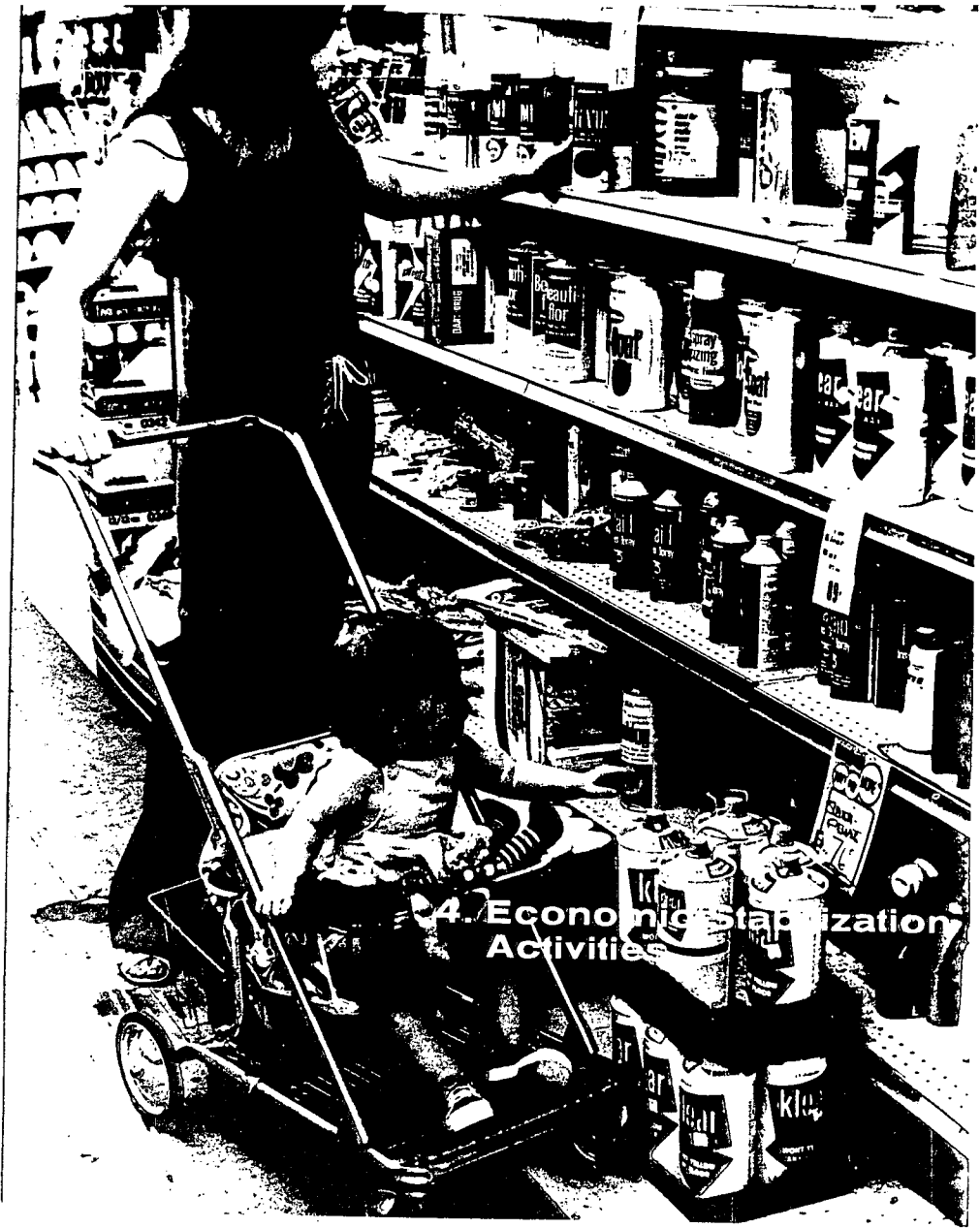
A series of 15 lesson plans, incorporating texts and various visual aids in the explosives area assisted State and local law enforcement.

Congressman Dante Fascell commended this training in a speech to the House of Representatives (Congressional Record, March 8, 1971):

"Mr. Speaker, one of the unsung but most effective proponents of improved cooperation and coordination among Federal, State and local law enforcement agencies is the Alcohol, Tobacco and Firearms Division of the Internal Revenue Service. Charged with weighty and growing responsibilities, under recent congressional enactments pertaining to explosives and firearms, among its many other responsibilities, the Alcohol, Tobacco and Firearms Division has fashioned an overall enforcement program, including comprehensive formal training and cooperation with State and local agencies, which is or should be a model for emulation by other Federal enforcement agencies."



Service investigators receive practical training in bomb scene searches.



4. Economic Stabilization Activities



### New Responsibility

The Service played a key role during the past year in the nationwide program to combat inflation. On August 15, 1971 President Nixon announced a 90-day freeze on most prices, wages, and rents. The President's Executive Order created the Cost of Living Council as a major policy making body. Simultaneously, the Office of Emergency Preparedness (OEP) took over responsibility to implement, administer, and enforce the Economic Stabilization Program.

On August 19, OEP redelegated responsibility to the Internal Revenue Service to establish local service and compliance centers. Staffs at the centers provided information to the public, investigated complaints, and monitored compliance with the stabilization program.

Because of the minimum of advance notice of its new responsibility, the Service had little time to develop planning programs to handle the volume of inquiries and investigations that quickly followed.

Since no precedent body of knowledge, experience, or procedures existed, an innovative program followed. The first week of operation brought 120,000 inquiries and more than 4,000 complaints of violation. During the 90-day freeze, which came to be known as Phase I, the Service developed a responsive and flexible program to meet its responsibilities under the Economic Stabilization Program.

### Background of Phase II

On October 15th, the President issued an Executive Order providing the legal foundation for the postfreeze program, or Phase II.

The Order continued the Cost of Living Council as the major policy body, and created the Pay Board and Price Commission. The Pay Board develops standards and criteria for pay adjustments consistent with program objectives, and the Price Commission develops standards and criteria for price and rent adjustments.

The role of the Service was to receive inquiries and complaints, carry out investigations and perform other related duties, as the OEP moved out of the Stabilization Program.

### IRS Organization and Manpower for Stabilization Activities

On November 14, 1971, Phase II emerged as an ongoing operation and the President assigned the Service the responsibility for enforcement of the program. The Service established an Office of Assistant Commissioner (Stabilization) at the National Office and counterpart offices at regional and district offices. With this organization, the Service provides enforcement services at each of the 58 district offices and at 302 local service and compliance centers.

Manpower for the program consists of full time stabilization employees and other employees transferred from tax administration tasks. They include such as revenue agents, tax auditors, revenue officers, taxpayer service representatives, special agents, and appellate conferees.

From November 15, 1971 to June 30, 1972, the Service answered 2,320,358 oral inquiries and 102,324 written inquiries. The National Office responded to 14,083 special executive, policy board, congressional, and public inquiries.

The program involves complex stabilization issues, increasing the need for technically proficient professionals. Revenue agents performed much of this work.

The Cost of Living Council formulates broad policy decisions, while the Pay Board and Price Commission establish specific criteria and policy objectives. Additional delegations of authority from the policy bodies permit the Service to make a variety of wage and price determinations, to issue rulings, and to resolve price violations.

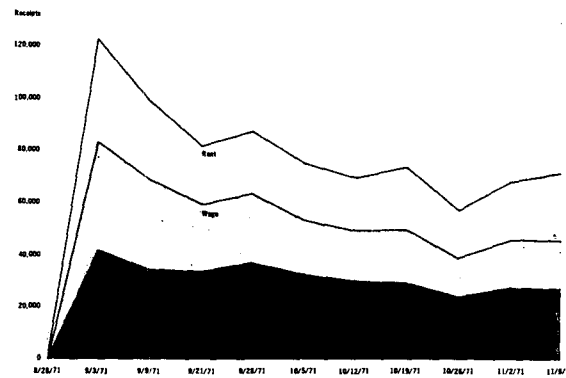
### Compliance Program

The objective of the compliance program is to monitor inflationary leaders or companies with a high degree of visibility in the community, as well as to respond to consumer complaints. There are four principal types of investigations:

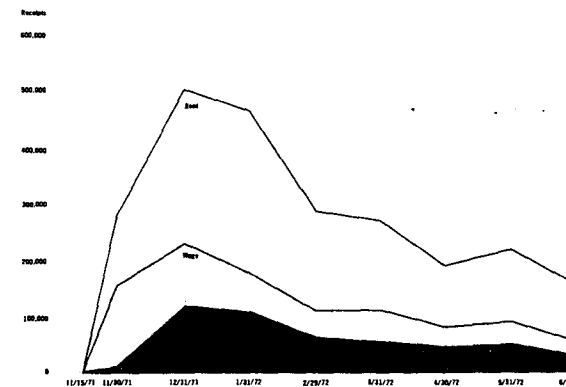
- (1) major investigations of industry leaders, initiated by the Cost of Living Council, Price Commission, Pay Board, or the Internal Revenue Service;
- (2) follow-up investigations of firms who fail to file required reports with the Pay Board or Price Commission, or whose reports showed excessive profit margins;
- (3) investigations of consumer complaints;
- (4) locally initiated investigations of inflationary leaders.

The Service develops monitoring techniques and guidelines after making preliminary surveys of industries. For example, the Service performed a full-scale monitoring investigation of the retail food industry. Service personnel drafted a model audit plan for food retailers for use in other

Verbal and Written Inquiries Phase I

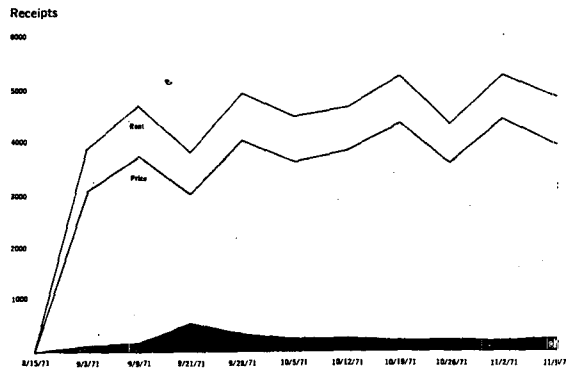


Verbal and Written Inquiries Phase II



major food compliance investigations. Other full-scale monitoring investigations span the textile industry, the ferrous metals industry, the lumber and paper industry, the wholesale meat packer industry, meat retailer industry, and the machinery and equipment manufacturing industry, as well as investigations of institutional health providers and professional service firms. From January 1, 1972 to June 30, 1972, the Service investigated 426 large firms, and ensured compliance with rollbacks or refunds orders.

Complaints of Alleged Violations Phase I



### Exemptions and Exemptions

When regulations create extreme hardship or gross inequity, exceptions and exemptions provide relief. An exception is a waiver of one aspect of the regulations for a specific firm or individual. An exemption is a general waiver from the regulations for certain classes or property.

In March, 1972, the Pay Board delegated authority to the Service to approve or deny exceptions for wage and salary adjustments. This affected employee units of fewer than 1,000 persons, and shortened the time for a citizen to receive an answer to his request for a pay exception. The Service received over 10,000 requests for pay exceptions with the delegated authority.

### Price Adjustment Exemptions

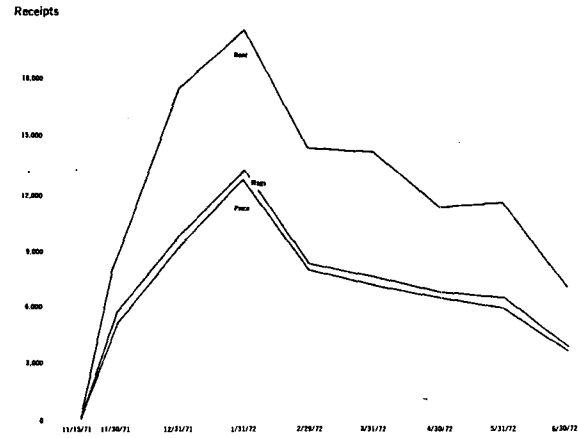
In May, 1972, the Price Commission delegated authority for exceptions in all rent and price cases involving firms with annual sales or revenues of \$50 million or less. During the post-freeze Phase, the Service processed over 4,000 requests for exceptions to the price regulations.

Frequently, persons requesting an exception are unaware that their proposed action is within the boundaries of the wage-price guidelines, and allowable without requiring an exception. For this reason, Service representatives work with the applicant in initially determining whether it is necessary to file a formal exception application.

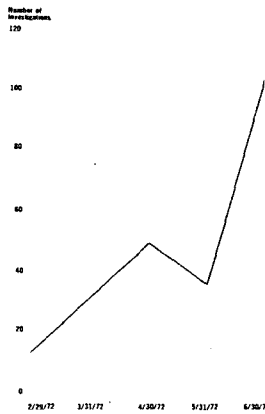
### Exemptions

In April 1972, the Cost of Living Council delegated authority to the Service to deny exemption requests that are the same as, or substantially the same as exemptions that the Council previously considered. To date, the number of exemption requests has been small, limiting the scope of Service action in this area.

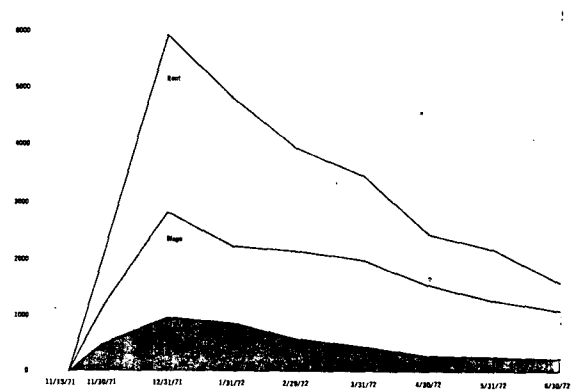
Complaints of Alleged Violations Phase II



Investigations of Large Firms Initiated by the Policy Bodies



Applications for Exception/Exemption Number or Receipts



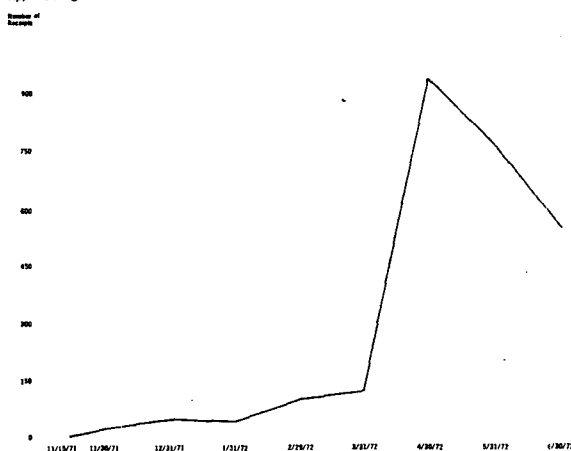
## Appeals Program

Regulations provide for appeal at the local level. Persons may appeal decisions on interpretations and requests for exceptions or exemptions. The Service issues formal notice in instances of denial and the appellant may appeal further to the Cost of Living Council, the Pay Board, or the Price Commission.

As of June 30, 1972, the Service received 2,557 appeals and resolved the majority at the district level.

Notices of violations are not subject to appeal, but the alleged violator may request a hearing. Following the hearing, the Service withdraws the notice of violation or refers it to an Assistant United States Attorney for possible prosecution.

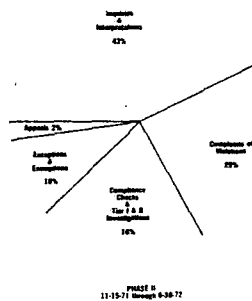
Appeals Program



## Stabilization Programs

The programs described above break down into two major categories: those that assist and answer questions from the public; those that ensure compliance with stabilization regulations. The accompanying chart displays the major Phase II programs and compares the manpower expended on each of the programs during the past year.

PERCENTAGE OF MANPOWER EXPENDED ON MAJOR STABILIZATION PROGRAMS



## Stabilization Support

### Activities

#### Review of Proposed Regulations

The Service reviews all regulations proposed by the Cost of Living Council, the Pay Board, and the Price Commission to help insure that the public understands them. This review helps the policy bodies recognize when enforcement of a proposed regulation would require an undue expenditure of manpower, when proposed regulations are vague or inconsistent, or when enforcement of a particular provision would result in severe inequities.

#### Publications Explaining Stabilization

The emphasis on voluntary compliance called for a program to convert complex economic regulations into plain-language. The Service approached this in two ways: first, developing comprehensive publications to explain regulations on a particular subject; second, developing a series of publications for selected segments of the economy. The Service sends reproducible copies of publications to associations or

organizations for distribution to their members and for reproduction in their periodicals. For example, "Posting Requirements for Retailers" went to 180 retail associations for distribution to all member retailers. In this way, distribution is widespread and reaches hundreds of thousands of interested persons. In many cases, retailers, employers, and landlords obtain additional copies for distribution to their customers, employees, or tenants, clarifying the provisions of the price, wage, and rent controls. Thus far, the Service has distributed 12 million copies of publications.

## Post-Review Necessary for Uniformity

The National Office has primary responsibility for insuring technical accuracy, uniformity, and consistency of all stabilization actions. It accomplishes this by analyzing closed stabilization cases relating to interpretations; identifying significant technical or procedural errors; and taking corrective measures. The objective is to maintain quality and uniformity to encourage citizen support and voluntary compliance.

## Stabilization Accomplishments

The Service works hand-in-hand with the Justice Department in developing litigation cases. Stabilization investigators are in frequent contact with Assistant U.S. Attorneys to assist in documentation of cases. Notices of Violation go to large firms only after case reviews by the Department of Justice.

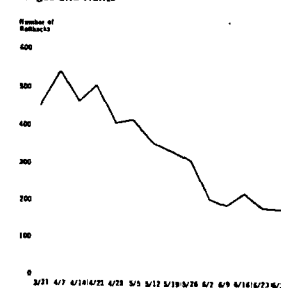
From November 15, 1971, to June 30, 1972, the Service received 105,502 consumer complaints. Subsequent investigations resulted in the issuance of 1615 Notices of Violation.

In one case, a Federal Grand Jury indicted the landlord of a low-rent apartment complex for stabilization violations. The landlord allegedly raised rents excessively and then forced tenants, under threat of eviction, to sign statements saying the increase was for maid and answering services. The charge carries a maximum penalty of five years in prison and a \$10,000 fine.

Another price case involved a corporate chain of resort hotels which raised room rates without notifying the Price Commission. The Justice Department has asked the court to impose civil penalties of \$109,500 and to order refunds of approximately \$50,000.

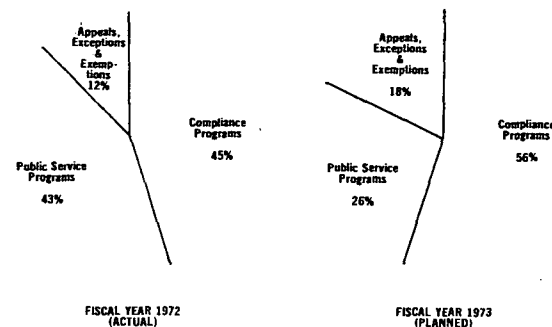
From November 15, 1971 to June 30, 1972, the program involved 11,045 rollbacks of excessive increases in prices, wages, or rents. A bank in Detroit rolled back excessive rentals on safety deposit boxes and refunded \$6,000 to 1,963 customers. A major professional football team rolled back set prices, affecting the ticket prices paid by the expected season's attendance of 706,000 fans.

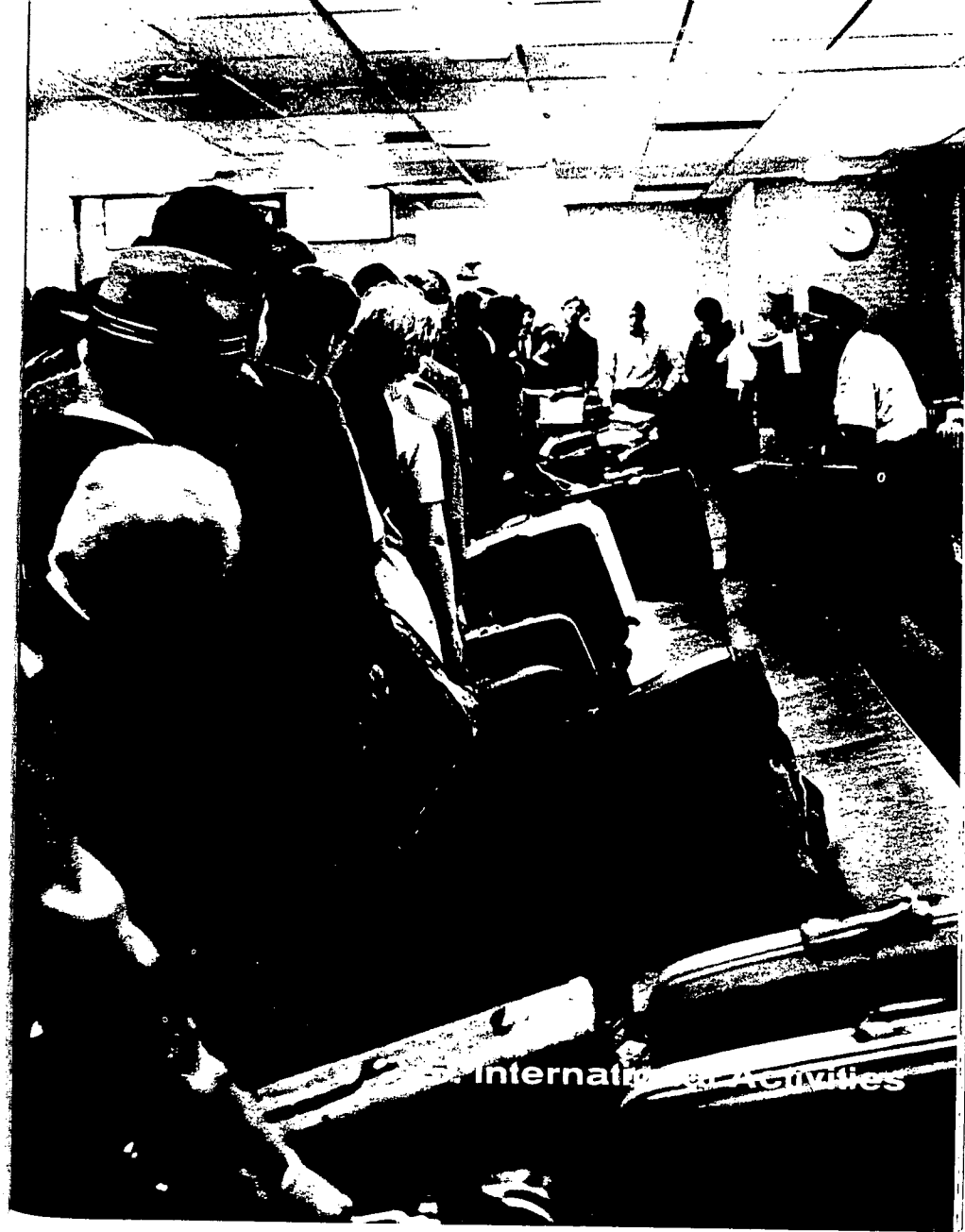
Rollbacks of Excessive Increases in Prices, Wages and Rents



The Service handled more than 3.7 million stabilization inquiries, mostly centering on rent issues. Most compliance programs deal with price actions, except for the appeals program which primarily involved wage cases. The Service is adjusting to the need for additional technical personnel by apportioning more manpower to compliance programs and by increasing the number of revenue agents used in the program.

## STABILIZATION MANPOWER ALLOCATION FISCAL YEARS 1972 AND 1973





International Activities

## Foreign Posts'

### Mission Restructured

The Service operates permanent posts staffed by Revenue Service Representatives in ten major cities around the world. These posts in Bonn, London, Manila, Mexico City, Ottawa, Paris, Rome, Saigon, Sao Paulo and Tokyo provide important contact points with U.S. citizens and business entities overseas.

Revenue Service Representatives devote time to a variety of activities, including servicing requests for information from foreign tax officials, acting as liaison between U.S. and foreign tax authorities in resolving cases of double taxation or other inequities arising under tax treaties, and providing information and guidance to U.S. citizens with tax problems.

### Overseas Audits— A New Development

Until 1972, the Service handled most audits of returns filed by taxpayers overseas through correspondence. In some cases Service personnel at foreign posts carried out intermittent audits, assisted by agents from Washington on short assignments.

Recent surveys pointed to a need to expand overseas audit activity to counter a growing noncompliance problem.

Under a new program, the Service details teams of revenue agents and tax auditors to the Service's overseas posts. The agents work throughout the area covered by each post, while auditors examine returns and do related work at the post itself. Each agent-auditor team usually is stationed abroad from four to six months. After this tour of duty, a replacement team takes over, assuring year-round continuity.

Teams perform compliance checks, make collateral examinations, provide taxpayer assistance, hold conferences, and handle delinquent returns and collections cases. They work with permanent Service personnel stationed at foreign posts who are familiar with the area and its problems.

### Worldwide Taxpayer Assistance Programs

For the past 19 years the Service has provided a worldwide tax assistance program. In 1972, the overseas taxpayer assistance

program expanded visits to 102 cities in 56 countries by specially trained Service personnel who helped more than 31,000 persons prepare their tax returns.

The program offered tax seminars in 78 foreign cities. The Service tailors seminars to inform and assist all U.S. taxpayers residing in the foreign area, and arranges them to allow for a presentation by the tax assistant on tax rules, a question and answer session, and a return preparation period.

Approximately 1,000 servicemen received several days of income tax instruction at bases abroad. After completing training, they provided assistance to many other members of the military community.



Barbara Stratton (right), a member of the overseas taxpayer assistance team helps a U.S. citizen in Rome. Assistance is given at various locations in more than 100 foreign cities.

### Developing Cooperative Contacts Abroad

In 1972, U.S. and foreign tax authorities met to discuss ways of improving exchanges of information, and expediting relief to taxpayers involved in double taxation.

From these exchanges, more effective procedures for international cooperation will evolve, aiding equity to taxpayers and deterring tax avoidance practices.

A continuing program of mutual assistance is conducted with tax authorities of the possessions of the United States and with the Commonwealth of Puerto Rico. It includes exchanges of information, joint audits, and assistance in collection of tax. A tax administration accord recently concluded with Puerto Rico formalized and expanded an existing policy of cooperation. A previous agreement reached with tax authorities of Guam resolved potential conflicts in tax determinations, particularly those involving allocation of income between sources in Guam and the United States.

### Extension of Federal Unemployment Tax to Americans Overseas

Prior to 1972, the Federal Unemployment Tax Act did not apply to citizens of the United States and Puerto Rico who worked in foreign countries. Recent changes in the law apply the tax to U.S. citizens and citizens of Puerto Rico who work outside the United States or Puerto Rico, if they qualify as employees of American employers. The tax does not apply to money earned in Canada, since these earnings are covered by a reciprocal unemployment compensation agreement, nor to services performed in the Virgin Islands. Thus, with

the latter exceptions, Federal unemployment tax and related unemployment benefits (or their counterparts under the agreement with Canada) now extend to the large group of citizens working for American employers overseas.

### Withholding Tax—A Key Collection Tool

A withholding tax is imposed on investment income from sources within the United States before it is remitted to nonresident alien payees. Tax is withheld at a rate of 30 percent or, in most cases, at reduced rates as specified in treaties.

Tax and information returns filed by withholding agents serve several purposes. They help secure compliance with U.S. tax laws and provide information for delinquency checks; they provide a source of data for foreign tax authorities; and they are useful in making fiscal projections and planning Service programs.

The chart below summarizes income received by nonresident aliens and foreign corporations, and U.S. tax withheld. This includes additional tax withheld and remitted by foreign banks and other nominees on behalf of clients who are not residents of a treaty country, and thus not entitled to reduced treaty rates.

Tax withheld from payments to nonresident alien persons of treaty and nontreaty countries—calendar year 1970

Country	Thousands dollars				Number of information documents filed by withholding agents
	Income	Tax withheld by domestic withholding agents	Tax from foreign governments or withholding agents	Total tax withheld	
<b>Treaty countries:</b>					
Australia	3,457	548		548	5,157
Austria	1,934	230		230	5,027
Belgium	27,196	3,544	438	3,982	12,565
Former Belgian o/s Territories	586	92		92	759
Canada	238,216	27,469	3,283	30,752	254,643
Denmark	2,564	179		179	2,083
Finland	607	45		45	340
France	70,147	7,364	118	7,482	20,607
Federal Republic of Germany	48,479	4,297		4,297	95,550
Greece	1,451	302		302	2,910
Ireland	4,259	468		468	4,030
Italy	15,387	1,718		1,718	14,825
Japan	31,864	3,231		3,231	3,683
Luxembourg	16,749	3,010	628	3,638	2,766
Netherlands	189,604	13,504	273	13,777	8,531
Netherlands Antilles	91,250	4,499	5	4,504	1,854
New Zealand	593	82		82	1,086
Norway	2,168	266		266	4,905
Pakistan	188	22		22	164
Sweden	10,055	693		693	5,011
Switzerland	310,522	39,733	25,001	64,734	46,289
Trinidad and Tobago	73	16		16	244
Republic of South Africa	1,462	384		384	1,490
United Kingdom	297,241	34,877	474	35,351	49,310
U.K. overseas territ.	4,692	944		944	3,935
<b>Nontreaty countries</b>	<b>88,241</b>	<b>22,376</b>		<b>22,376</b>	<b>108,129</b>
<b>Total</b>	<b>1,458,985</b>	<b>169,893</b>	<b>30,220</b>	<b>200,113</b>	<b>655,893</b>

The following graph shows a sharp rise in the amount of taxes withheld over the period 1961 through 1970, reflecting the sizeable growth of foreign investment in the U.S. economy.

Increase in Tax Withheld from Payments to Non-Resident Alien Persons of Treaty and Non-treaty countries—Calendar Years 1961-1970



### Negotiating New Tax Conventions—A Continuing Program

The United States and Norway signed a new income tax convention at Oslo on December 3, 1971.

The existing convention will remain in effect until instruments of ratification of the new convention are exchanged. The United States also concluded an agreement with the Republic of China for the purpose of granting relief from double taxation on earnings derived from the operation of ships and aircraft by corporations or citizens of the two countries. The agreement became effective upon exchange of notes at Taipei on February 26, 1972.

These developments reflect a continuing program to extend the U.S. tax treaty network to additional countries and to modernize existing treaties. The new Norwegian convention, for example, takes into account changes in U.S. and Norwegian tax laws and in the tax treaty area which have occurred since adoption of the prior convention. To the extent that technical and

policy factors permit, the new convention follows the model tax convention prepared by the 23-nation Organization for Economic Cooperation and Development.

### Technical Assistance In Tax Administration

The Tax Administration Advisory Staff (TAAS), formerly known as the Foreign Tax Assistance Staff, assists foreign governments wishing to improve their tax administration, and coordinates exchange of personnel between the Internal Revenue Service and state and local governments and universities. The latter is a newly acquired responsibility.

This new activity is conducted under the Intergovernmental Personnel Act of 1970, and involves temporary exchanges or assignments of officials for projects related to tax administration. Major objectives are to strengthen state and local tax agencies and to improve the effectiveness of Federal-state/local tax operations.

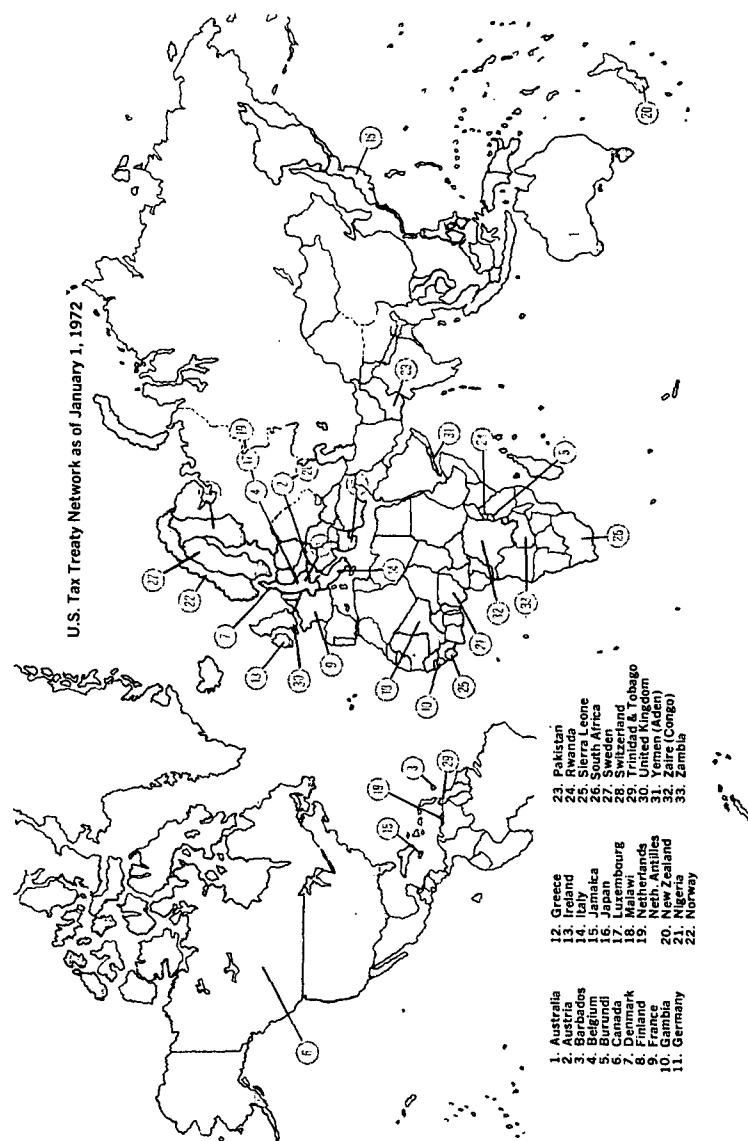


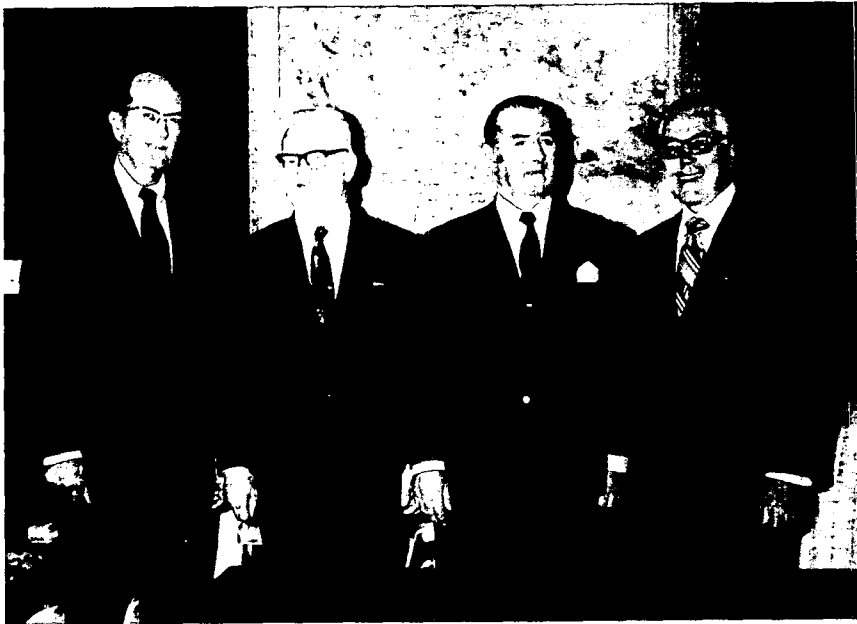
Under the Intergovernmental Personnel Act of 1970, the Service assigns officials and technicians to work with state and local tax agencies to strengthen tax administration and increase the effectiveness of Federal-state/local tax operations. Pictured above (l. to r.) are

Edward A. Dore, a Service official on assignment to the State of Virginia; Linwood Holton, Governor of Virginia; and W. H. Forst, Virginia Tax Commissioner.

TAAS provides technical assistance in tax administration to developing countries that request it. The latter program involves on-site assistance as well as training for foreign tax officials within and outside the United States and is financed by and administered in collaboration with the Agency for International Development. The program is coordinated with activities of the Inter-American Center for Tax Administrators (CIAT), the Organization of American States, the United Nations, other multi-country organizations and various foundations.

This year, Commissioner Walters led the U. S. delegation to the 6th General Assembly held at Asuncion, Paraguay.





Each year the Service is host to many foreign tax officials. Pictured above (l. to r.) are Johnnie M. Walters, Commissioner of Internal Revenue; J. C. Duignan, Chairman of the Irish Revenue Commissioners; S. P. Bedford, Collector General of the Irish Inland Revenue; and Raymond F. Harless, Deputy Commissioner of Internal Revenue.

### Active Country Programs

This is the tenth year in which the Service has provided technical assistance to developing countries. Long-term advisory teams served in Bolivia, Brazil, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Nicaragua, Paraguay, Trinidad and Tobago, Uruguay and Viet Nam. The teams are staffed by IRS technicians who generally serve two years of duty. They are aided by specialists on short-term assignments drawn from the Service and occasionally from state and local governments.

Service personnel conducted surveys of the tax administration systems of Barbados and Zambia to identify major weaknesses, propose solutions, and outline an approach for strengthening their systems.

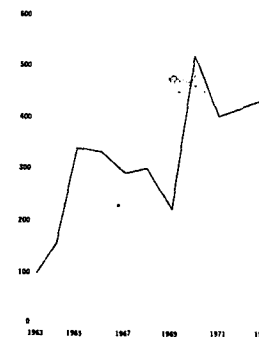
The request from the Government of Zambia reflects a rising interest within Africa for the kind of technical assistance the Service has been extending throughout the world. Service representatives arranged meetings with tax officials of the East Africa Community, Liberia, the Economic Commission for Africa and others. During the year, Liberia began implementing recommendations made during a 1970 survey.

Host countries continued to make gains in audit, collections, processing of tax returns and remittances, taxpayer education, training, organization, and management. This progress is reflected in increased voluntary compliance and rising revenue receipts.

### Foreign Visitors

During the year, 452 foreign tax officials came to study and observe tax administration in a series of courses offered under the International Tax Administration Training Series (INTAX), and to participate in programs specially designed to fit their needs. The courses covered the major functions of tax administration, and the observation sites included state and local agencies as well as Service installations. Visitors this year came from 59 countries and ranged from subcabinet officials to technicians.

3052 Officials from 101 Countries Were Trained in The United States in Past Ten Years



### Inter-American Center of Tax Administrators (CIAT)

CIAT is an organization of tax administrators from 23 countries in North and South America. It continues to attract world-wide attention as an organization devoted to self-help in tax administration. CIAT's technical seminars on audit, automatic data processing, and land tax administration draw participants from all parts of the world. Its monthly newsletter and technical materials generated by seminars and general assemblies receive world-wide distribution. CIAT also arranges for the exchange of technical missions among member countries. It is a model for regional organizations under consideration in Asia, the Middle East, and Africa.



6 Business and Legal



The Chief of the Chief Counsel (under the supervision of the Treasury Department) performs the legal work of the Internal Revenue Service. It renders opinions to Service officials on substantive legal questions and provides technical assistance to the Treasury Department's legislative program.

The Chief Counsel represents the Commissioner in trying and in helping to settle cases docketed in the Tax Court. This chapter covers general activities in the legal area. Important court actions are included in the appendix beginning on page 94.

### Tax Court Litigation Activity

Tax Court cases on hand as of June 30, 1972 amounted to 12,625, as compared to 12,192 a year earlier. New cases totalled 8,949 for the year and the Court disposed of 8,507. Dispositions included 880 decided by the Tax Court on the merits, 954 dismissed, and 6,673 closed by stipulated agreement of the parties.

The Supreme Court decided one case, which had originated in the Tax Court, in favor of the Government. The Tax Court entered 523 opinions involving 824 cases. It decided 288 cases for the Government, 84 for the taxpayer, and 151 partially for the Government and partially for the taxpayer. In addition, the Tax Court entered 191 Summary Opinions involving 200 Small Tax Cases. In this area the Tax Court decided 111 for the Government, 29 for the taxpayer, and 51 partially for the

Government and partially for the taxpayer. The Courts of Appeals rendered 177 opinions involving 308 Tax Court cases; 121 favored the Government, 36 favored the taxpayer, and 20 partially favored the Government and partially favored the taxpayer.

In the trial or settlement of cases, the Tax Court awarded the Government \$133 million in taxes and penalties out of \$401 million placed in issue, and held for the Government \$9 million out of \$12 million in overpayments claimed by taxpayers. At the end of the year, \$1.6 billion remained in inventory to be contested in the Tax Court. (The next three tables show comparable statistics for the last 5 fiscal years.)

The fourth table shows the record in trial courts (Court of Claims, U.S. District Courts and U.S. Tax Court) having jurisdiction of Federal tax cases.

#### Results in Tax Court cases

Fiscal year	Number	Deficiencies and penalties asserted (thousands)	Amounts recovered (thousands)	Recovery percentage
1968	5,944	\$313,875	\$ 98,825	31.48
1969	5,831	393,699	145,589	36.98
1970	6,564	400,092	130,724	32.67
1971	7,560	391,605	143,913	36.75
1972	8,507	400,631	132,984	33.19

#### Cases disposed of by settlement

Fiscal year	Number	Total Deficiencies and penalties asserted (thousands)	Total Amounts recovered (thousands)	Overall Recovery percentage
1968	5,058	\$281,785	\$ 82,215	29.18
1969	4,776	329,938	118,974	36.06
1970	5,343	352,328	105,447	29.93
1971	6,197	316,997	100,788	31.79
1972	6,673	350,129	106,301	30.36

#### Cases disposed of by trial<sup>1</sup>

Fiscal year	Total number of cases disposed of	Total Deficiencies and penalties asserted (thousands)	Total Amounts recovered (thousands)	Overall Recovery percentage
1968	611	\$29,131	\$13,859	47.57
1969	783	59,798	22,888	38.28
1970	763	44,926	22,654	50.43
1971	806	52,998	21,779	41.09
1972	880	41,132	17,371	42.23

<sup>1</sup> Figures for settled and tried cases do not add to overall totals, which include a small number of cases dismissed.

#### Trial court case record

Action	Court of Claims		District Courts		Tax Court	
	1971	1972 <sup>1</sup>	1971	1972 <sup>2</sup>	1971	1972 <sup>3</sup>
Decided in Favor of Government	16	16	207	218	407	494
Decided in Favor of Taxpayer	6	51	147	116	100	156
Decided partially for the taxpayer and partially for the Government	4	3	70	56	280	374

<sup>1</sup> 56 opinions rendered involving 70 cases.

<sup>2</sup> 323 opinions rendered involving 390 cases.

<sup>3</sup> 714 opinions rendered involving 1,024 cases.

#### Tax in litigation (in thousands of dollars)

Status	Tax Court			Refund litigation refund suits
	Total	Taxes and penalties	Overpayments	
Pending July	\$2,118,791	\$1,451,453	\$143,623	\$523,715
Received	722,549	567,008	15,330	140,211
Disposed of	547,539	400,631	12,491	134,417
Pending June 30	2,293,801	1,617,830	146,462	529,509
Amount saved	227,986	132,984	9,058	85,944

#### Results in refund suits (settlements and trials combined) (Amounts are in thousands of dollars)

Fiscal Year	Number of cases disposed of	Amount in dispute (Thousand dollars)	Amounts saved— not refunded (Thousand dollars)	Percentage not refunded
<b>All refund suits</b>				
1968	1,296	\$ 94,607	\$ 39,856	42.13
1969	1,563	120,059	72,670	60.53
1970	1,160	84,356	50,262	59.58
1971	1,091	106,223	48,323	45.49
1972	1,442	134,417	85,944	63.93
<b>District Courts</b>				
1968	1,118	50,703	23,562	46.47
1969	1,394	97,500	56,992	58.45
1970	1,053	49,246	26,401	53.61
1971	938	63,816	39,841	62.43
1972	1,292	85,629	51,916	60.62
<b>Court of Claims</b>				
1968	178	43,904	16,294	37.11
1969	169	22,559	15,678	69.50
1970	107	35,110	23,861	67.96
1971	153	42,407	8,482	20.00
1972	150	48,788	34,028	69.74

### Civil Litigation

#### Refund Litigation Activities

This year, the Refund Litigation Division closed 1,442 cases leaving a total of 3,167 cases pending at the end of the year. In the preceding year it had closed 1,091 cases.

The Supreme Court rendered three decisions in tax refund suits, sustaining the Government's position in two of the cases. In the preceding year the Supreme Court rendered one decision in a refund suit sustaining the Government's position.

Of the 136 opinions rendered by the Courts of Appeal (involving 155 cases), 89 favored the Government, 37 favored the taxpayer, and 10 decisions partially favored the Government.

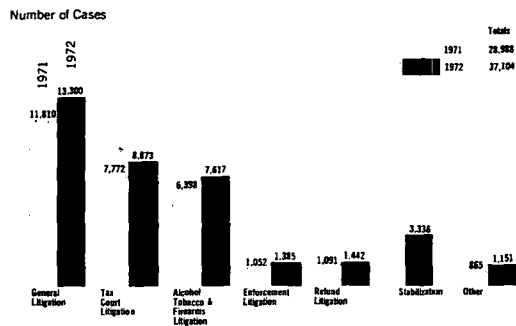
The amount involved in pending refund litigation cases increased slightly to \$529.5 million, from \$523.7 million at the start of the year. This increase resulted from the receipt of new cases totalling \$140.2 million and the disposal of cases totalling \$134.4 million. The \$140.2 million in new cases compares to \$134.1 million in the preceding year. The 1,442 refund suits disposed of during the year resulted in refunds of \$48,474,000, consisting of \$1,444,000 refunded pursuant to Court of Claims judgments, \$7,044,000 refunded pursuant to district court judgments, and \$39,985,000 refunded as a result of settlements. The total refund of \$48,474,000 represents a recovery by the taxpayer of about 36.06 percent of the amount of \$134,417,000 involved in completed refund suits. In these refund suits, the Government successfully defended its position with respect to \$85,944,000 of the amounts claimed for refund. (Comparable statistics for the 5 fiscal years appear in the table at left.)

## Stabilization Legal Services

The Office of the Chief Counsel to the IRS established a Stabilization Division on November 14, 1971, and appointed an Assistant Regional Counsel (Stabilization) in each of the seven Regional Offices. The Division provides interpretative advice and guidance to the Assistant Commissioner (Stabilization), field offices, and the public. It issues rulings and reviews regulations issued by the Cost of Living Council, the Price Commission, and the Pay Board. The Assistant Regional Counsels (Stabilization) provide interpretative guidance on rulings issued by the Stabilization Division and on regulations issued by the policy bodies.

The Service published 292 rulings during the fiscal year. These included: 60 Cost of Living Council Rulings; 192 Price Commission Rulings; and 40 Pay Board Rulings. It also issued 157 private rulings. Requests for reconsideration are filed with the Office of Chief Counsel and appeals are filed with policy bodies.

Case Disposals By Office of Chief Counsel



One of the first published rulings involved the question of whether wage increases are allowable costs. Early in Phase II of the Economic Stabilization Program a potential conflict surfaced between the goals of stabilizing prices and stabilizing wages and salaries. Price increases can occur if justified by sufficient allowable cost increases, such as wages and salaries. If the Pay Board approves an increase in wages of 5.5% then the firm can automatically raise prices to compensate for increased costs. Price Commission Ruling 1971-3, 36 Fed. Reg. 23661 (1971) held that wage payments including fringe benefits in excess of 5.5% per year are not generally allowable costs.

A situation arose on price posting requirements for drugs. Many states prohibit a pharmacist from posting prices for drugs. Relying on the Supremacy Clause of the Constitution, Price Commission Ruling 1972-28, 37 Fed. Reg. 1412 (1972) required the posting of drug prices despite states laws to the contrary.

A ruling of wide impact in the price area is 1972-13, 37 Fed. Reg. 765 (1972). It deals with allowing a manufacturer to increase prices over the base price, only to reflect allowable costs in effect on November 13, 1971 and cost increases after that date. The question arose whether the manufacturer can raise prices only on a dollar-for-dollar basis or on a percentage basis which would allow a profit element in the new price. The Ruling held that the manufacturer can raise prices by the same percent that costs increase if the price increase did not cause the manufacturer's profit margin to exceed his base period profit margin.

Another ruling deals with the relationship between price increases and the base period profit margin. Price Commission Ruling 1972-206, 37 Fed. Reg. 13192 (1972) held that if proof exists that a firm would have had a smaller margin without a price increase, the profit margin limitation is in violation.

Pay Board Ruling 1972-32, involved parties to a contract who agreed that any portion of the increase in wages and salaries not allowable under the Stabilization Program would be the subject of a supplemental wage provision after lifting of the controls which would provide the full value of the wage increase denied. The ruling held that the value of this provision would be chargeable against the 5.5 percent wage and salary limitation.

Regulations issued include procedural rules with respect to disclosure of the results of economic stabilization investigations; rules relating to stabilization matters before the Service; and the authority of Service employees and the Department of Justice to inspect stabilization records for tax administration purposes.

## General Litigation Legal Services

General litigation case receipts increased sharply over the preceding year. Although disposals also increased (from 11,810 cases in 1971 to 13,320 in 1972) the inventory of pending cases at the end of the year stands at 7,429, an increase of 555 cases over 1971. Increased receipts occurred at National Office and field levels and related to cases in litigation and non-court cases, such as advisory opinions. Receipts at the field level for 1972 included 6,996 cases in litigation and 6,336 non-court cases, as compared to 1971 field receipts of 6,765 cases in litigation and 5,840 non-court cases. National Office receipts for the year included 279 cases in litigation and 246 non-court cases, as compared to 1971 figures of 199 and 260, respectively. Field disposals for 1972 included 6,698 cases in litigation and 6,226 non-court cases, in comparison to 1971 disposals of 5,911 cases in litigation and 5,544 non-court cases. For detailed statistics on case receipts and disposals, see tables 18 through 25 on page 125.

The Supreme Court did not render any decisions in the general litigation area during the year. It did grant certiorari in one case. Courts of appeals received and denied 10 petitions for writs of certiorari. The decisions in the general litigation area involve issues relating to the collection of Federal tax claims and liens, and matters concerning injunctions and civil enforcement of the Internal Revenue summons. The summons cases continue to represent a major area of litigation at the appellate level. Summaries of some of the general litigation cases begin at page 96.

The Office of the Chief Counsel furnished substantial legal services in connection with disclosure of information, non-collection matters, and matters arising under the Freedom of Information Act (R.U.S.C. 552). General litigation supervisors and lawyers participated in training sessions held in the regions in the Advanced Technical Training Program for Revenue Officers and the Special Procedures Seminars. They also rendered extensive legal assistance and performed many services which did not relate to docketed cases, such as reviewing district office collection cases and furnishing advice on administrative procedures.

## Interpretative Activities

Personnel of the Chief Counsel's Office participated with other technical personnel in solving urgent problems. They also reviewed all revenue rulings prior to publication. Many questions of significant impact arose, such as the following:

In the partnership area, Chief Counsel personnel participated in the preparation of Rev. Proc. 72-13, 1972-2 I.R.B. 26, which establishes the conditions necessary before the Service will consider issuing advance rulings concerning classification of an organization as a limited partnership where a corporation is the sole general partner. The two tests that must be satisfied are: (1) that the limited partners will not own directly or indirectly, individually or in the aggregate, more than 20% of the stock of the corporate general partner or any affiliates; and (2) if the corporate general partner has an interest in only one limited partnership and total contributions to that partnership are less than \$2,500,000 the net worth of the corporate general partner at all times will be at least 15% of such total contributions or \$250,000, whichever is lesser, and if the total contributions to the partnership are \$250,000 or more, the net worth of the corporate general partner at all times will be at least 10% of the total contributions.

Attorneys in the Interpretative Division considered the treatment of a lessee's gain or loss upon the sale of a leasehold of land where the lessee uses the lease in his trade or business but is not a dealer in leases. The publication of Rev. Rul. 72-85, 1972-9 I.R.B. 15, resolved the matter by concluding that such a lease hold is property used in the trade or business for purposes of Code 1231.

Service attorneys participated in the preparation of Rev. Rul. 72-315, 1972-26, I.R.B. 8, which holds that all finance charges on revolving charge accounts at retail stores are deductible as interest under Code Section 163 (a). They considered related issues in connection with Rev. Rul. 72-100, 1972-10, I.R.B. 9, which deals with the reporting of interest income by the lender and the interest deduction on an installment loan where the note requires, in the event of a prepayment, computation of interest by the Rule of 78's method.

As in the past, tax exempt organizations received a great deal of attention. In one case, Service attorneys considered whether an international exposition commemorating historical events and cultural achievements and exhibiting products of various nations qualifies for recognition of exemption under Code Section 501 (c) (3). Rev. Rul. 71-545, 1971-2, C.B. 235 held that the organization qualified for the exemption.

Another problem involved the tax status of abortion clinics that operate on a nonprofit basis and provide abortions for indigent women.

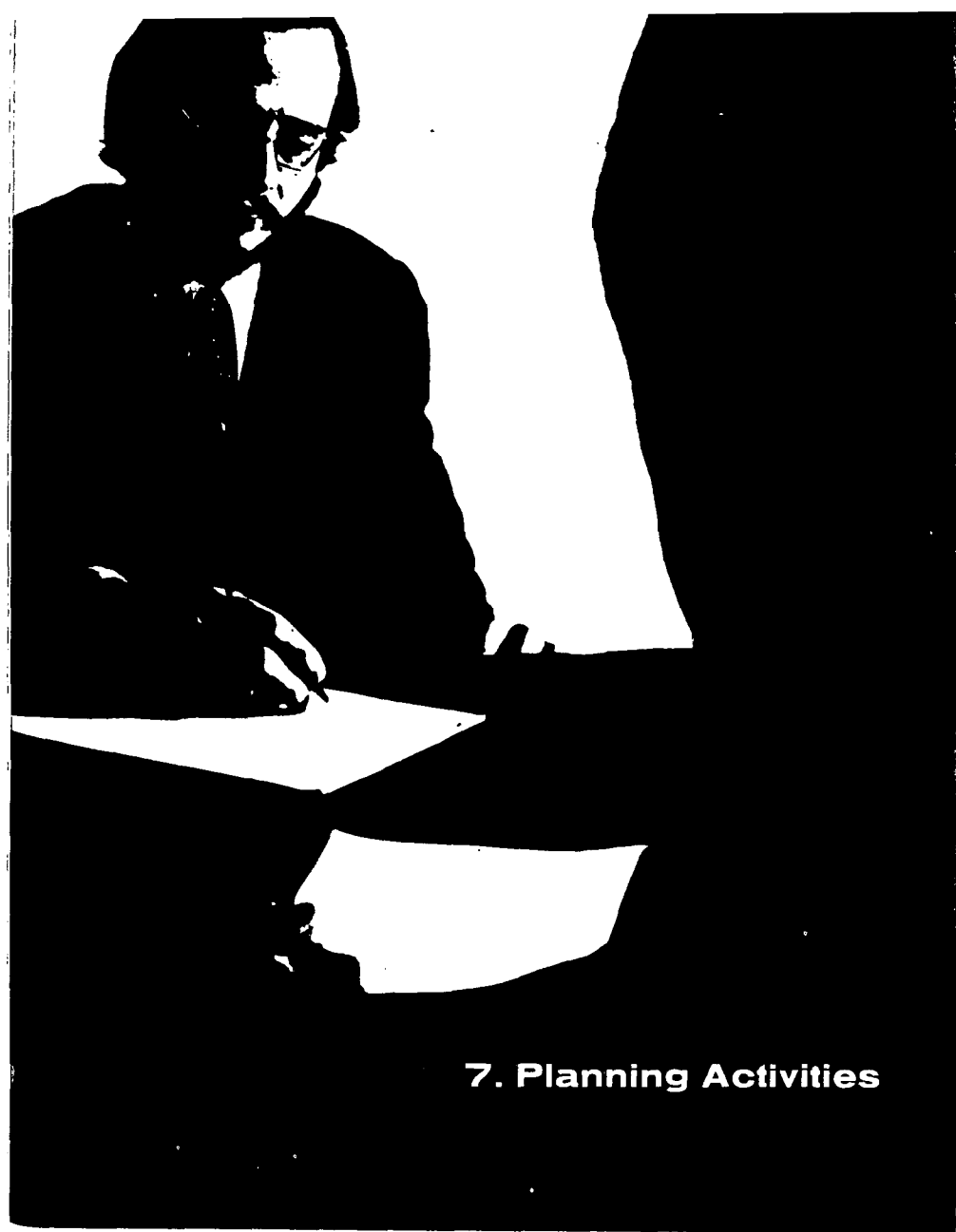
#### **Legislative Activities Legislative Assistance**

The Office of Chief Counsel prepared reports and summaries on fifteen bills in the alcohol, tobacco, firearms, and explosives area for the Treasury Department. Attorneys also prepared comments for departmental use on five legislative proposals.

#### **Revenue Legislative Assistance Provided**

The Service provided technical assistance to other offices of the Treasury Department and to committees of Congress in developing legislation and legislative proposals relating to internal revenue matters. This assistance involved (1) preparing information reports, technical reports, drafts of bills and accompanying technical explanations and other data relating to legislative matters, and (2) attending public hearings and congressional committee meetings. Most of the activity involved efforts toward legislation enacted during the year.

The Service also conducted research and study projects involving tax administrative problems and unintended benefits and inequities with a view toward corrective legislation.



## **7. Planning Activities**

## Introduction

The Service's planning activities encompassed complex subjects such as the new Asset Depreciation Range System, a restructuring of the income tax withholding system, a system for detecting unallowable tax return items prior to audit, planning for revenue sharing, Federal collection of state income taxes, and full use of information documents for delinquency checking and income reporting.

Summaries of some of the more important developments follow.

## Office of Industrial Economics

The Service organized an Office of Industrial Economics as a division of Planning and Research early in fiscal 1972, with responsibility for recommending changes in definitions of asset guideline classes and in the associated depreciation and repair norms necessary to the new Class Life Depreciation Range System. The Office is staffed by economists and engineers who formulate plans for the future collection and analysis of tax return data. These professionals collect information from trade sources to serve as a basis for applying the Class Life System to various types of real and personal property, particularly computers, and such activities as shipbuilding, communications, commercial fisheries, and animal husbandry. From these sources they make recommendations for new asset classes and for revision of asset classes and their depreciation and repair guidelines.

The Class Life System affords taxpayers the opportunity to determine reasonable allowances for depreciation on property for which the Service has established guideline classes, provided taxpayers adhere to prescribed accounting and reporting rules. Taxpayers electing the Class Life System may also elect to use a guideline repair allowance rule for the determination of allowable repair and maintenance expense.

## Storage and Retrieval of Images of Returns and Related Documents (STAR)

The Service continued a test to study costs and benefits of using microfilmed images in lieu of original documents at the Cincinnati Service Center and the Cleveland District Office. By filming pages of all returns and related documents there is no need to extract documents from the files. Users can make new images or photocopies with view-printers. Microfilm images

permit faster response to taxpayer correspondence, and more efficient service to taxpayers who visit District Offices.

## Technical Reference Information

Researchers tested an automated technical reference system this year. Computers stored technical information from the U.S. Code, the Cumulative Bulletin, Index Digest Supplements, and selected court decisions. Attorneys and technical personnel at the National Office and the Cincinnati District searched this data base via remote terminals. Users input key words or phrases, and in response, the terminals displayed relevant citations, abstracts, or text.

## Remittance Processing System (RPS)

The Service tested a program to modernize the clearing, depositing, and crediting of taxpayer's checks through an automated Remittance Processing System.

The heart of the RPS is a new computer device which verifies the taxpayer's identification and remittance amount and signals the operator to insert the check into the system. The check then moves past print stations where it is automatically encoded with the remittance amount and endorsed, with the complete audit trail printed on the reverse side. The operator then places the accompanying document, such as a return or bill, into the numbering station for imprinting of the document number and remittance amount.

Benefits of this new system include rapid posting of credits to tax account files, and a better audit trail to facilitate payment tracers.

## Research Programs

In 1972 the Service directed research toward (a) improving the withholding system (b) developing proposed legislation to promote the quality of tax return preparer services; (c) designing a system to administer Federal collection of state income taxes; (d) providing data for use in Federal revenue sharing; (e) formulating a plan to extract benefits from information documents; and (f) implementing the employee plans master file system.

To counter underwithholding problems inherent in the Tax Reform Act of 1969, Congress passed new legislation. It included: (a) restructuring the withholding system to provide only one low income allowance per family in a dual employment situation; (b) incorporating the dollar limitation into the withholding system on the standard deduction; and (c) adding a seventh withholding rate and bracket to the previous six-rate schedule. The purpose of these changes is to withhold the full amount of tax liability up to a wage level of about \$25,000 for single persons and \$31,000 for married couples where only one spouse works.

To avoid excessive withholding, the law provides for a special added withholding allowance (except in dual employment situations) and a liberalization of the rules for claiming additional withholding allowances due to large itemized deductions.

## Tax Return Preparers

In response to growing complaints alleging incompetent and unethical performance by some tax return preparers, the Service made a comprehensive study of pending Congressional bills and other proposals to remedy the situation. The Service consulted professional organizations and leading commercial tax return preparing companies. Commissioner Walters presented the problems as well as the Service's efforts to deal with them at a public hearing of the Legal and Monetary Affairs Subcommittee

of the House Committee on Government Operations. Pending proposals are:

1. Imposing a statutory penalty of from 10 to 25 percent of the deficiency in tax (caused by the preparer) on the preparer who knowingly understates income or overstates deductions, exemptions, or credits.
2. Authorizing the Government to apply to a District Court for an injunction to prevent further preparation of returns by preparers who consistently prepare false or deficient returns.
3. Establishing a penalty on the preparer of approximately \$5 for each return which he fails to sign.
4. Requiring each preparer to furnish an annual information return listing all of their client taxpayers with their identification numbers.

The Service is also considering the preparation of model courses and course materials for the use of schools and universities who offer instruction in tax return preparation.

## Federal Collection of State Individual Income Taxes

The Congress is considering legislation to authorize the Service by agreements, to collect and administer State individual income taxes. A State would have to conform its individual income tax law closely to the Federal law before agreements could be made.

Under the proposed legislation, Federal administrative and judicial procedures would apply to the collection of State income tax. The Service would collect state withholding and estimated income taxes under the same procedures applicable to Federal taxes.

This legislation would require redesign of the Service's systems and procedures—including modifications in tax forms, instructions, regulations, internal operating procedures, and master file systems.

## Employee Plan Master File System

The Service developed a new master file system for employee pension, profit-sharing, and other deferred compensation plans. It is similar to the Business Master File and Individual Master File, and links employer entities with adopted plans, the trusts or funds through which they finance their plans and the fiduciaries of these trusts or funds. The system will aid the Service in selecting returns for audit, in detecting non-filers, and in providing management information for monitoring the employee plan and fund area. As part of the President's five-point program for pension reform, the Departments of the Treasury and Labor have undertaken a study of the nature and extent of employee benefit losses resulting from termination of certain qualified pension and profit-sharing plans.

## Revenue Sharing

Legislation is pending in Congress for sharing Federal revenue by State and local governments. Under this legislation, the Service would extract data from Federal individual income tax returns to determine the amounts of Federal assistance to States and local government units. Taxpayers will provide their actual place of residence rather than mailing addresses on their tax returns since this will determine the allocation of revenue sharing funds. The Service is developing changes in 1972 individual income tax forms and instructions and redesigning and reprogramming data processing procedures to provide required data by the fall of 1973.

### Total Information Document Utilization Program

A plan for the creation of a wage and other income information tape file incorporates all of the useable information documents as a base for conducting more effective income and employment tax enforcement programs. This program should increase taxpayer compliance and revenue by pinpointing delinquent return leads and assuring that payers and payees have properly reported all income and withheld taxes.

### Federal-State Cooperation

The Service expanded programs for Federal-State cooperation in 1972. Tax administrators in 41 States, and the District of Columbia and Puerto Rico, now receive uniform data on magnetic tape from the Service's Individual Master File. Only 32 States received data in the previous year. With the exception of Nevada and Texas the Service has entered into agreements for exchange of tax information with all States, and the District of Columbia and Puerto Rico. Over one-half of these agreements conform to the model designed to reflect recent changes in Federal and State tax administration.

### Long-Range Planning System Develops Program Plans

In 1971, the Service re-examined its long-range planning process and subsequently developed a new System which is a simplified, flexible version of the Planning, Programming, and Budgeting System (PPBS). The new system defines the nature and size of the tax administration job, develops goals, proposes and analyzes different programs, establishes concrete program objectives, provides the basis for budgeting resources and for evaluating effectiveness in terms of objectives.

Regional Commissioners increasingly are participating in the long-range planning process through their review of program issues and assumptions, and through conferences devoted to review of program plans.

### The Taxpayer Compliance Measurement Program

The Compliance Measurement Program (TCMP) is the Service's major long-term scientific research program. The program uses statistical survey techniques to determine how well taxpayers are complying with tax laws. TCMP provides a basis to compare the size of the tax administration job versus the amount of the job being done. By highlighting significant non-compliance problems, it allows the Service's program development effort to focus on the areas most in need of attention.

TCMP information is also necessary to develop the Discriminant Function formulas used to select high error probability returns for examination.

### Analytical Studies Sharpen Program Development

The Service conducted a number of analytical and organizational studies during the year. These include:

#### Discriminant Function Formulas Developed for Small Corporation Returns

A completed TCMP survey of corporations with assets of less than \$1 million is helping to develop discriminant function formulas to select small corporations' returns for examination. The Service will install the new classification system in 1973.

#### Enforcement Operations in Hazardous Duty Areas

The Service initiated a study of the hazards to enforcement personnel working in inner city areas with a high incidence of violent crime. Major focal areas of the study include the exclusive use of office audit techniques for returns from these areas, and improved coordination of account collection activities.

#### Measuring the Impact of Compliance Programs

The Service is conducting two studies to develop methods for measuring the impact of enforcement programs on taxpayer compliance.

The first study attempts to examine the deterrent effect of the returns examination program on compliance. Information on the tax reported on returns in the years before and after audit will help determine whether audit increases the amount of tax reported in subsequent years.

The second study will use specialized statistical methods to determine the effects of the Service's audit program, other IRS compliance programs, and social and economic factors on levels of compliance for a cross section of taxpayers.

### Statistics of Income Highlights

Estimates of individual income and business receipts published in the Statistics of Income reports reflected continued growth in the U. S. economy.

Individual taxpayers reported adjusted gross income of \$632 billion on tax year 1970 returns, up 4.7 percent from 1969. Taxable income was \$401 billion after allowing for personal exemptions and deductions. Changes in individual filing requirements and increased deductions granted certain low-income taxpayers in the Tax Reform Act of 1969 dampened the amount of the 1970 increase in income.

Receipts reported on business returns increased to more than \$1.9 trillion. Corporations alone accounted for \$1.6 trillion of tax year 1970 receipts, while corporate profits increased to \$83 billion. In the unincorporated area, proprietorships reported receipts of \$238 billion and profits of \$33 billion; partnerships had profits of \$9.8 billion on receipts of \$92 billion.

The table below focuses on the frequency and amount of personal deductions and exemptions claimed on individual income tax returns. The total amount of deductions and exemptions for tax year 1970 was approximately 28 percent greater than that for 1966. This growth resulted mainly from the tremendous increase in itemized deductions, up almost 62 percent in the period.

The chart at the top of the next page reflects the large increase in deductions itemized on individual income tax returns. In the period 1966-1970, deductions for State and local income taxes, real estate taxes and home mortgage interest rose by 121 percent, 58 percent, and 41 percent respectively. Over the longer period 1960-1970, the total amount of taxes deducted more than tripled (up 205 percent) and deductions for interest paid has almost tripled (up 184 percent).

Chart B on the next page pictures how the returns that individuals filed for 1970 and the tax liability they reported are distributed in terms of the size of tax.

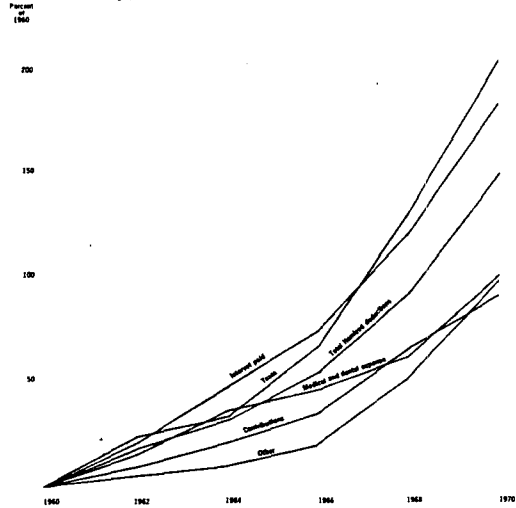
Individual income tax returns: Number of returns, personal deductions and exemptions

Item	1966	1967	Income year		
			1968	1969	1970
			(Thousands)		
All individual returns, total	70,160	71,652	73,729	75,834	74,286
Standard deduction returns <sup>1</sup>	41,500	41,877	41,693	40,914	38,827
Itemized deduction returns	28,550	29,774	32,030	34,915	35,459
Number of exemptions	194,862	193,036	201,288	206,197	264,187
			(Million dollars)		
Total personal deductions and exemptions	193,363	200,543	212,024	225,555	248,143
Amount of exemptions	116,977	118,822	120,773	123,718	127,574
Amount of standard deduction	21,820	22,103	22,074	21,627	32,370
Amount of itemized deductions	54,565	59,523	69,177	80,210	88,199
Itemized deductions by type:					
Taxes total	17,468		24,360		32,045
Real estate taxes	7,315		9,362		11,559
State and local income taxes	4,006		6,499		8,997
Other taxes	5,925		8,481		11,489
Interest paid, total	14,971		19,545		23,895
Home mortgage interest	8,142		9,822		12,898
Other interest paid	5,830		8,723		10,997
Contributions	9,122		11,139		12,913
Medical and dental expenses	7,681		8,438		10,588
Other deductions	5,322		6,647		8,752

<sup>1</sup> Includes returns with no adjusted gross income.

**Percent Change in Deductions Itemized on Federal Individual Income Tax Returns Since 1960**

(Based on Legislative and Economic Changes)



NOTES: (1) During this period, there were major changes in the tax laws resulting from the Revenue Act of 1964 and the Tax Reform Act of 1969, which affected the amount of deductions reported. (2) Data on types of deductions are reported only for non-retirement years.

**Chart B. Number of Returns and Amount of Tax, Percent Distribution by Size of Tax Liability, 1970**

PERCENT OF RETURNS	TAX LIABILITY	PERCENT OF TAX
28.1	NONE	
23.2	\$1 under \$500	3.0
22.3	\$500 under \$1,000	12.4
24.8	\$1,000 under \$5,000	5.3
2.1	\$5,000 under \$20,000	25.2
.5	\$20,000 or more	5.1

**Significant Developments for the Tax Models in 1972**

The use of a larger computer for processing tax files with a standard programming language meant more flexibility and greater speed and production capacity in tax model operations.

The Service developed tax models nine years ago to develop estimates of the revenue effect of proposed tax legislation. Each model consists of the application of generalized computer programs to specially formatted data files made up of samples of taxpayer records.

The models are valuable tools for fiscal, administrative, and economic planning.

The uses of tax model tabulations can be shown by reference to the Revenue Act of 1971. The Service developed statistical tables to simulate the revenue effects of the proposed restoration of investment credit provisions. After enactment, the Service developed further simulations to project the number of returns to be filed, categorized by complexity.

In the past year other Government agencies made use of tax model data. The Department of Agriculture requested tabulations concerning farm income by type of income and geographic region; the Small Business Administration requested income data for partnerships and proprietorships by size of receipts, industrial classification, and State; the recently established Cost of Living Council requested corporate sales data by industrial classifications and size classes tailored to the Council's purposes.

**Returns Filed Projections**

Returns filed projections serve as a basis for planning activities throughout the Service. The Service revises the projections each year to include changes in tax law and to incorporate the most recent thinking in economic and demographic expectations.

Between 1965 and 1970, the total number of returns filed increased almost 11 million, with much of the increase occurring in individual returns. Between 1970 and 1972, the total number of returns dropped almost 3 million. This is largely traceable to changes in filing requirements for individuals and other provisions of the Tax Reform Act of 1969, and the Revenue Act of 1971.

Present indications are that the total number of returns to be filed will begin to grow rapidly starting in 1973, and by 1975 will exceed 120 million returns and should reach 132 million by 1980.

Projections of some major categories of returns are shown in the table below.

**Selected Types of Returns Filed in 1971, and Projected for 1973, 1975, and 1980 by Calendar Year**  
(Thousands)

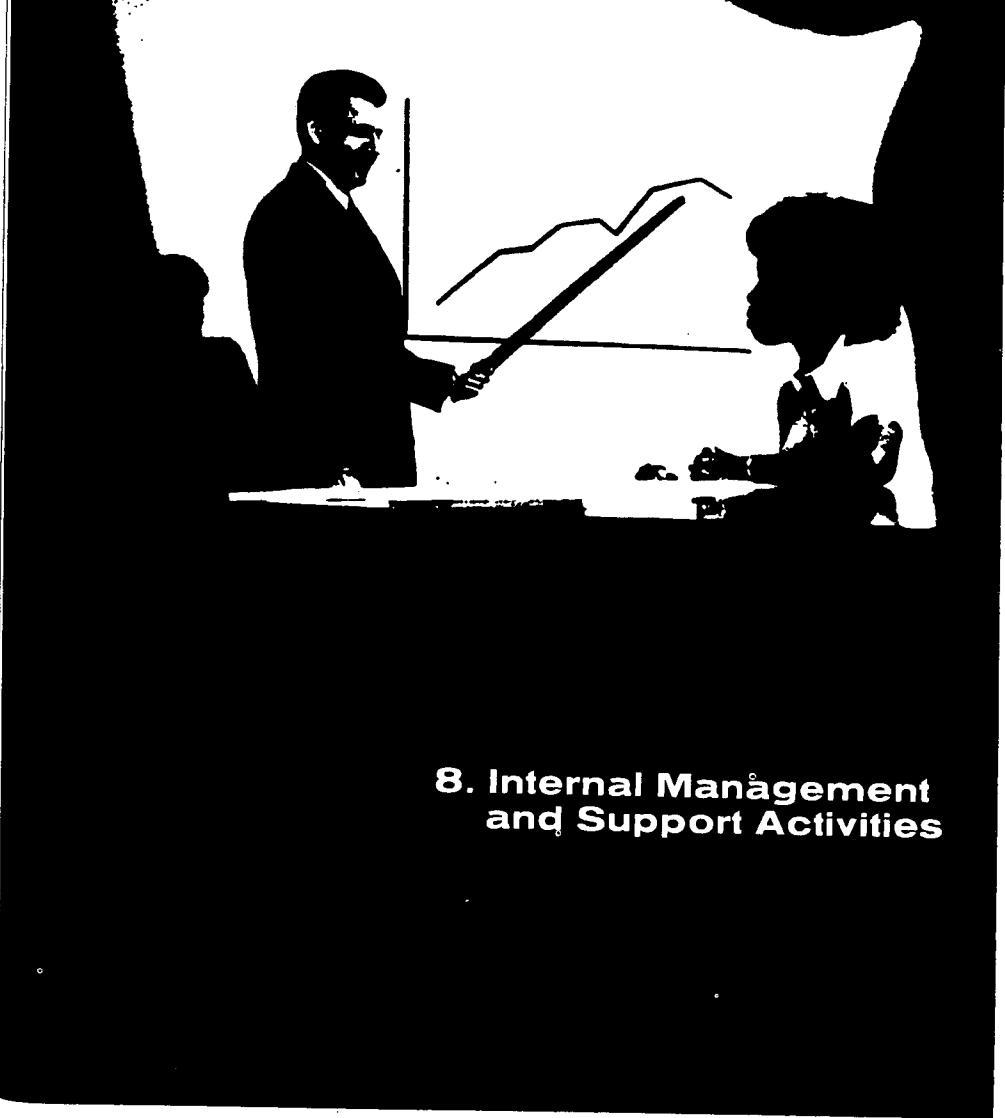
Type of Return	Actual 1971	1973	Projected 1975	1980	Change 1971-1980
<b>Total returns</b>	111,374	114,843	120,069	131,819	18.4
Individual, total	75,392	77,425	81,864	91,618	21.5
AGI under \$10,000 <sup>1</sup>	51,402	48,981	47,710	44,271	13.9
AGI \$10,000 and over	23,990	28,443	34,154	47,347	97.4
Fiduciary	1,232	1,374	1,553	1,978	60.5
Partnership	1,005	1,026	1,042	1,083	7.7
Corporation	1,833	1,965	2,105	2,480	35.3
Forms 1120, 1120 Special, total	1,542	1,640	1,741	2,021	31.0
Assets under \$50,000 <sup>2</sup>	682	703	739	837	22.8
Assets \$50,000 under \$1 million	757	821	876	1,028	35.8
Assets \$1 million or more	103	116	126	155	50.2
Form 1120-S, 1120-DISC and 1120X	290	325	364	459	58.3
Employment	21,909	22,981	23,141	23,754	8.4
Estate and Gift	374	385	423	527	40.9
Exempt Organization	562	524	568	683	21.4
Excise	709	740	730	301	-57.6
Other <sup>3</sup>	8,359	8,424	8,663	9,396	12.4

NOTE: Detail may not add because of rounding. Data by size class are estimated.

<sup>1</sup> In addition to Form 1040, includes Forms 1040A, 1040C, NR, PR, and SS.

<sup>2</sup> Includes Form 1120 returns with assets not reported.

<sup>3</sup> Includes Forms 7, 8, 11, 11B, 11C, 678 through 1971, 4705, 4706, 4707, 4708, 1040ES, 7004, 7005, 2438, and 1042.



**8. Internal Management  
and Support Activities**

## Financial Developments

The Service's fiscal year 1972 budget totaled \$1.1 billion, providing for an employment level of close to 73,000. Administration costs amount to approximately one-half of one percent of tax collections.

A number of internal organizational developments in 1972 brought important budgetary changes to the Service. Late in FY 1971, the Secretary approved changes in the IRS organization that resulted in a newly designated appropriation: Accounts, Collection and Taxpayer Service (ACTS). Under this alignment, revenue accounting and returns processing functions, formerly an appropriation in themselves, Collection (Formerly in Compliance), and an expanded taxpayer service program were combined to form the new appropriation.

In the shift of the Alcohol, Tobacco, and Firearms Division to a separate bureau within Treasury, the Service lost 4,000 man years and \$73.7 million of its appropriation which were shifted to the new AT&F Bureau.

## Cost Reduction and Management Improvement Efforts Yield Substantial Savings

Cost reduction and management improvement programs saved the Service \$11.2 million in 1972.

Of the total savings realized, \$3.4 million is attributable to 9 major projects, several of which appear elsewhere in this report. Hundreds of operational improvements accounted for the balance of \$7.8 million.

## Recruitment Efforts Successful In Face of Requirements

Two developments had some impact on the 1972 recruitment effort. First, a government-wide requirement to reduce the average grade level caused the Service to recruit new employees at the lowest possible grade level. The Service had to hire at GS-4 or GS-5, instead of the more usual GS-7 level. A large number of qualified candidates accepted GS-5.

The other development involved cancellation of special salary rates for accountants and accelerated promotions from GS-5 to GS-7 for revenue agents and special agents.

## Service Employee Nominated as Outstanding Federal Handicapped Employee

The Service nominated Miss Patricia Porembski, a cerebral palsy victim and a Tax Examiner at the North Atlantic Service Center, for the Outstanding Federal Handicapped Employee of the Year. The Civil Service Commission honored her at a ceremony on April 6th, during which each finalist received a special citation from Mrs. Tricia Nixon Cox. At a subsequent ceremony Patricia received a plaque as the IRS nominee. Other nominees awarded IRS plaques are: Joseph Cihanowyz, Librarian, Newark District; James A. Gray, Tax Examiner, Jacksonville District; and Reese Nelson, Accounting Technician, Ogden Service Center.

## Plaques Presented for Distinguished Work

Twenty-six persons received plaques for their distinguished work for the Service's handicapped. Twenty-two are Service workers, while four are from outside the Service.

## President's Committee Commends the Service on Employment of the Handicapped

In a letter to the Commissioner on December 9, 1971, Chairman Harold Russell of the President's Committee on Employment of the Handicapped referred to the Service as "an agency doing an outstanding job of opening up broader opportunities for the handicapped—many times in areas where the handicapped have never worked before." Mr. Russell extended his congratulations to the Commissioner and to "all who have had a part in compiling such a splendid record." The Commissioner passed on this tribute to the many Service employees who have worked with enthusiasm and dedication on the program for employing the handicapped.

The Service continued to make inroads for employment of deaf professionals (programmers and statisticians), the retarded (about 100 are on Service rolls), and the blind as taxpayer service representatives, (71 in 42 districts, 50 cities, 35 states).



Handicapped employees continued to do a good job for the Service. Patricia Porembski conquered cerebral palsy to pursue full-time employment as the Senior Tax Examiner at the Brookhaven Service Center. This year she was presented with an award as an outstanding handicapped Federal employee. Shown left to right are Commissioner Walters, Patricia Porembski, Patricia Nixon Cox, and Jayne B. Spain at the ceremony.

Man-Years Authorized and Realized

Appropriation	Authorized		Realized		Percentage Realized	
	1971	1972	1971	1972	1971	1972
Salaries and expenses	1,560	1,687	1,566	1,660	100.4	98.4
Accounts, collection and taxpayer service	23,110	36,555	22,125	36,089	95.7	98.7
Compliance	45,281	34,502	45,045	34,198	99.5	99.1
Total	69,951	72,744	68,736	71,947	98.3	98.9
Increase 1972 over 1971		+2,793		+3,211		+ .6

Note: Delinquent Accounts and Returns function transferred from Compliance to Accounts, Collection & Taxpayer Service in 1972.



Although confined to a wheelchair since birth, Donald Peterson, pictured at his desk in the Ogden Service Center, was one of 272 permanent employees who accepted the challenge of a new job at the Fresno Service Center.





Roy Kumpke, Executive Director, Arkansas Enterprises for the Blind, receives a plaque for his distinguished work in behalf of the Service's handicapped. Seventy blind Taxpayers Service Representatives have been trained by the Enterprise. A. J. Schaffer, Director of IRS Personnel Division, and Nicholas W. Williams, IRS Coordinator for the Employment of the Handicapped, made the presentation. Pictured left to right: Mr. Schaffer, Mr. Kumpke, and Mr. Williams

#### Printed Products for the Visually Handicapped

Last year, the Service produced "Your Federal Income Tax" (Publication 17) in a form useful for the visually handicapped. By using a process of electronic composition, finished products appear in braille for the blind and in large print for the partially sighted.

#### Scholarship Program Aids Disadvantaged

The Service inaugurated a scholarship program for disadvantaged high school seniors who want to major in accounting while working part-time and during summer vacations. The scholarships provide employment while students are not attending college, plus payment of fees and expenses up to a maximum of \$5,000 per year—the bulk of which is for salaries.

#### Union Relations

Successful negotiations led to the first multi-unit agreement with the National Association of Internal Revenue Employees (NAIRE). At the same time, the Commissioner issued policy and philosophy statements on union-management relations.

The signing of the agreement on April 5, 1972, covering all district offices in which NAIRE has gained exclusive recognition, marked the culmination of nine months of intense bargaining. The Service and the union started negotiations on July 9, 1971, when NAIRE first submitted its proposals for bargaining, and

continued them through the formulation of management positions by a national planning committee.

The agreement covers about 28,000 employees in 54 district offices, marking the first time that the Service and a Federal employee union reached a nationwide agreement. Among important provisions are those dealing with promotion, travel, grievances, training, and discipline.

The Service anticipates expansion and change in union relations activities as a result of the multi-unit pattern of negotiated agreements which set the tone for similar agreements covering service center and regional office employees.

#### Gain Achieved in Equal Employment

Minority group employees and women made encouraging gains in all grades from GS-5 to GS-17. Twenty-two members of minority groups and women, assigned to senior staff and managerial positions, were at GS-15 level and above at year's end.

Under changes in Civil Service standards, the Service now hires female criminal investigators. The Service urged supervisors to encourage women to compete for supervisory and managerial jobs and the number of women serving at GS-13 and above increased more than 20%.

#### New Management Careers Program

The Service implemented a new Careers Program to fill most managerial positions. Major features include: establishment of Regional Boards, thereby placing reliance on collective judgment; a comprehensive selection and development process; selection in advance of first line supervisory vacancies where feasible; required training for those selected for first-line supervisory positions before assuming new duties; and continued emphasis on career development of employees.



Commissioner Walters (left) shakes hands with Vincent Connery, President of NAIRE, on the occasion of the Multi-Unit Agreement signing in April. The Agreement covered all district offices in which NAIRE has gained exclusive recognition.

#### Training Program Varied and Extensive

The majority of Service jobs require at least introductory specialized training. The Training Division designed over 300 courses, ranging from clerical training to executive development to meet these needs. In 1972, 49,000 employees enrolled in advanced technical and professional skills courses. An additional 30,000 para-professionals attended courses in service center occupations and nearly 5,500 newly recruited employees received training in basic skills.

#### Course Revision Stresses Quality and Economy

The Service restructured many basic training programs and removed extraneous materials to shorten training time whenever possible.

Typical of these redesigned programs is the basic training course for revenue officers. The revised program deleted 60 hours of classroom time for each of the 500 revenue officers trained annually. This revision will save 14 man-years and \$3.5 million each year.

Similar revisions continue in basic training courses for taxpayer service representatives and revenue agents. Approximately 1100 taxpayer service representatives and 1000 new revenue agents receive training each year.

### **New Techniques at Training Centers**

The Service completed a network of field training centers in the past year. These facilities will provide more efficient and economical training, and allow for more extensive use of modern instructional aids such as student-responder systems and closed-circuit television.

Computer-assisted instruction plays an important role in training service center data transcribers. Some 6,000 employees received training using this technique in conjunction with the Direct Data Entry System. Programmed instruction, algorithms, and similar techniques extended the concept of self-instruction.

The year's accomplishments also included the publication of a series of program guides. The guides mark the introduction of a true management-by-objectives system into the training area and have already proved to be practical, efficient, management tools.

### **Management Programs Revised and Unified**

The Service revised the Basic Supervisory Course and began modifying the Executive Selection and Development Program to incorporate it into the new Federal Executive Development Program.

Changes in the Basic Supervisory Course included development of a video training unit on theories of management and new revised material on utilization of resources, performance analysis, union-management relations, and training and career development. Revisions to the executive development program provide guidelines for pre-identification of managers with high executive potential and establish a system for insuring continued development of incumbent executives.

Plans are also well underway to unify the Service's various management development programs. The goal of the new unified Management Career Program is to guarantee uniform, systematic development by new supervisors and managers of the skills necessary for performances before actual assignment to the job.

### **Effective and Rapid Training**

The early stages of the Economic Stabilization Program (ESP) involved constant change. A self-instructional Reference Guide included materials designed to enable employees to learn the new skills needed to perform their jobs at their work areas. An instructor's Manual aided in teaching stabilization procedures and regulations. These materials will satisfy most taxpayer service representative needs for the near future. The Service also produced a handbook for compliance investigators.

Instructors from the Service, the Price Commission, and the Pay Board conducted regional seminars on pay regulations and price and rent exceptions.

### **New Furniture Used to Brighten IRS Offices**

The General Services Administration selected the Internal Revenue Service as the first major Government agency to use contemporary-style furniture. All desk work stations in the three new IRS service centers are of contemporary design, square corners and functional form.

Contemporary desks and chairs, as well as the bright decor and open space layout within the centers, encourage the return of the 2,000 or so temporary employees hired for each filing period. Further, these cheerful and attractive work areas are expected to improve employee productivity and morale.

### **Facsimile Transmission Equipment Installed Nationwide**

The Service installed special facsimile transmission equipment nationwide last year to support Phase II of the Economic Stabilization Program. The National Office uses automatic polling and multi-caster broadcast devices to transmit information to its 275 field offices. A transmission can reach all offices in 18 minutes.

### **The Accident Prevention Program**

During 1971, the first year of the new "Zero In On Federal Safety" campaign, the accident prevention effort of the Service resulted in a frequency rate of only 1.8 disabling injuries per one million man-hours the lowest ever. This rate is about 70% less than the Federal rate.

This year, Service personnel drove almost 114 million miles on official business with an accident frequency rate of 7.9 per million miles driven.

Also in 1972 the Service acted on 81 claims under the Military Personnel and Civilian Employees' Claims Act of 1964, settling 49 in favor of employees who suffered personal property losses incident to their employment. This is a decrease of 19 percent over the number of claims handled last year.

### **Improved Protection of Facilities**

The Service updated plans and developed new procedures to cope with bomb threats, civil disorders, and demonstrations against its facilities. Problems of this type decreased significantly from the preceding two years. Service offices lost less than 2,000 man-hours from bomb threat evacuations in fiscal 1972, compared to 12,000 in fiscal 1971.

### **Inspection Activities Assure Integrity of IRS**

The success of the American tax system depends on public confidence in the Internal Revenue Service as the fair and impartial administrator of the federal tax laws. Inspection, through its internal audit and internal security activities, assists Service managers in their efforts to maintain operational integrity. Management officials have the responsibility for taking appropriate action on facts developed through audits and investigations. These officials refer violations of federal criminal statutes directly to the Department of Justice for prosecutive consideration.

### **Internal Audit Programs Result in Improved Operations**

Internal audit programs provide management with independent reviews of the accounting, financial, and other operating activities of the Service. These reviews help insure that policies, procedures, and controls protect the revenue and are applied efficiently and effectively. The Service places emphasis on activities most closely associated with collection of revenue and enforcement of tax laws.

Internal audit reviews automatic data processing activities on a continuing basis. This on-line auditing extends to other Service programs. One objective is to identify problems of interpretation or implementation as they occur instead of waiting for periodic audits. Prompt reporting enables management to take immediate action to strengthen procedures, controls, and communications.

Corrective actions by management on internal audit findings often result in additional revenue or savings, which for fiscal year 1972 amounts to an estimated \$37 million.

Examples of improvements and savings resulting from these actions follow:

Internal Audit designed a computer program which identified more than 82,000 income tax returns containing suspect exemption deductions. By using data provided from this program, internal auditors and internal security inspectors detected several fraudulent refund schemes perpetrated by tax practitioners.

Another internal audit computer program identified over 30,000 income tax returns with tax due of more than \$4 million. Tests of returns filed for tax year 1969 disclosed that many taxpayers made duplicate claims of credits for exemptions and standard deductions already allowed by the tax tables.

Another recommendation involved revising procedures to verify the status of surviving widow(er) with a dependent child. The Service had automatically allowed joint tax rates on all such returns although the higher single or unmarried head of household tax rates applied in many cases. The Service is determining the correct filing status of these taxpayers and studying systemic controls and tax return revisions. Tests indicate that revised annual procedures will result in additional revenue of several million dollars.

### **Investigative Team Produces Results**

Internal auditors and internal security inspectors investigate breaches of integrity by employees as well as by taxpayers in collusion with employees. Intensive investigations have resulted in successful criminal prosecutions as well as recommendations for improved controls and procedures.

One investigation involved attempted bribery of an internal security inspector. The case has extended over several years and resulted in arrests or indictments of 31 employees or former employees and 21 taxpayers or tax practitioners. By June 30, 1972, controlled tax examinations in connection with the investigation had resulted in proposed additional taxes and penalties of \$8.1 million.

Another investigation brought about the arrest of two individuals on charges of preparing and filing false tax returns. To date, investigators have identified 228 returns claiming questionable refunds of \$191,000.

### **Internal Security Division Activities Extensive In Scope**

#### **Continuing Attempts to Bribe Service Personnel**

The Service's program of enlisting the support of employees in reporting bribery attempts continues to show results. In fiscal year 1972, 125 employees reported possible bribery attempts, resulting in 47 arrests or indictments.

Service employees have continued most effectively in bringing to justice those persons who challenge the integrity of the Service through bribery. Service employees have reported 1,003 bribery attempts since 1961. One of every four instances resulted in prosecution action. During the eleven year period, bribery investigations resulted in 283 arrests

or indictments, and 202 convictions or guilty pleas. At the end of the fiscal year 41 persons charged with attempted bribery awaited trial. Bribes offered, solicited, or paid ranged from \$40,000 to \$100,000. In the latter case, the taxpayer attempted to avoid over one million dollars in tax assessments.

The graph on this page illustrates program results. Each bar on the graph shows the number of attempted bribery cases reported by employees; the shaded subsection indicates the number of arrests or indictment each year resulting from these reports.

The following cases show that attempts to bribe follow no particular location or occupational patterns.

A New York accountant offered a bribe to a revenue agent for a favorable audit. He pleaded guilty and received a suspended prison term, probation, and a \$3,000 fine.

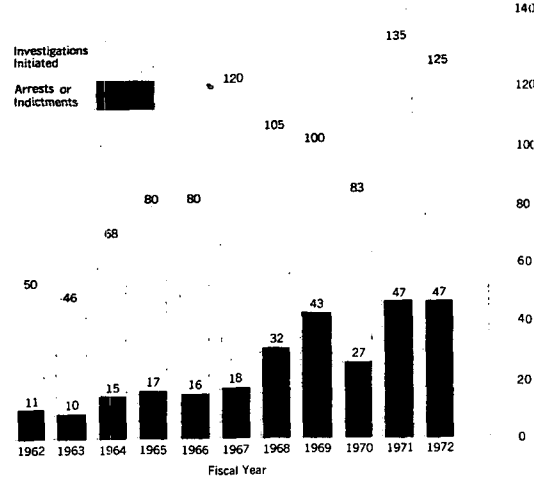
A Pennsylvania attorney received three months imprisonment, one year probation, and a fine of \$3,000 for attempting to bribe a revenue officer to abate penalties owed on an estate tax return.

A New York fish market owner and his accountant offered a bribe for a favorable audit. They received fines of \$600 and \$750, and sentences of one and two years probation, respectively.

A North Carolina liquor law violator offered an investigator \$2600 to induce him to delay confidential information and not raid or investigate his illicit liquor operations. He received 18 months imprisonment, three years probation, and a \$24,000 fine.

A Florida accountant received three months imprisonment, 20 months probation, and a fine of \$5,000 for offering a bribe of \$1,500 to influence an audit.

**ATTEMPTED BRIBERY PROGRAM**



An Illinois supermarket owner offered a bribe to a revenue officer to delay enforced collection of taxes. He pleaded guilty, and received six months imprisonment followed by 30 months probation.

A New York Federal Home Loan Bank Board employee, moonlighting as a public accountant, offered a revenue agent \$5,200 for a favorable audit. He pleaded guilty and received four months imprisonment and three years probation.

**Convictions Continue Upward Trend**

Comparison of convictions for the past six fiscal years appears in the table below. Of a total of 300 convictions, 197 preferred to plead guilty rather than to go to trial.

	Convicted	Pleaded Guilty	Employees, Former Employees	Non-Employees	Total
F.Y. '67	14	19	17	16	33
F.Y. '68	26	19	12	33	45
F.Y. '69	9	30	13	26	39
F.Y. '70	14	32	20	26	46
F.Y. '71	22	48	16	54	70
F.Y. '72	18	49	13	54	67
Total	103	197	91	209	300

**Organized Crime Influences**

During the past three years the Service conducted extensive investigations of possible corruptive influence by organized crime upon the Service. In one case, the investigation involved 90 persons, 37 of whom were IRS employees or former employees, and 21 were organized crime figures. To date there have been 25 indictments and 20 convictions. The 25 persons indicted include 8 organized crime figures, 11 Service employees, 4 former Service employees, and 2 tax practitioners.

**Criminal Action Remains Constant**

During this fiscal year officials arrested or indicted 77 individuals including 12 employees or former employees of the Service and 65 taxpayers, tax practitioners or others. Comparison of prosecutive actions initiated by the Service during the past three years appears in the table below.

At the end of the year, 70 taxpayers and 18 employees or former employees awaited trial or possible indictment.

Prosecution actions covered such charges as embezzlement, selling confidential tax information, fraudulent refund schemes, attempted bribery, solicitation of a bribe, conspiracy to defraud the Government of taxes due, preparation of false returns, perjury, and obstruction of justice.

A few examples follow:

An employee who converted seized property to his own use, pleaded guilty and received a fine. The investigation continues with two additional arrests.

Another employee received \$13,000 to influence his decision on official matters. The court sentenced him to one year imprisonment and ordered him to pay a fine of \$2,500.

The court convicted another employee of unauthorized disclosure and conspiracy to disclose information from a Federal tax return.

In one fraudulent refund scheme, an employee filed numerous Federal and state tax returns using valid taxpayers names and social security numbers. Investigation disclosed the employee maintained the funds acquired under assumed names in 26 bank accounts located in Los Angeles, Chicago, Switzerland, New York

and the Bahamas. The Service recovered over \$116,000, constituting full restitution. The perpetrator of the scheme pleaded guilty and received two months in prison and three years probation.

**High Case Closure Rate Continues**

The Internal Security Division completed 13,863 investigations during fiscal year 1972. Investigators carried out police record searches on 15,782 persons considered for temporary short-term appointments or for positions created for special economic and educational programs.

The vast majority of investigations involving an alleged impropriety on the part of Service personnel result in exoneration of the employee. The employees identified as involved in questionable or unlawful actions constitute a very small percentage of the IRS employment force.

The tabulation on page 72 shows the types of investigations completed during the past two years and related dispositions.

PERSONS INVOLVED IN ATTEMPTS TO CORRUPT IRS	Number arrested or indicted			TOTAL
	1970	1971	1972	
Employees or former employees of IRS	21	12	12	45
Taxpayers, tax practitioners, others	37	54	65	156
TOTAL	58	66	77	201

Investigations and actions

Type of Investigation and Action	1971	1972
Total Investigations Closed	14,263	13,868
<b>Personnel Investigations</b>		
Number of cases closed, total	11,600	10,697
Character and Security Investigations	8,946	7,877
Conduct Investigations	499	618
Special Inquiries	2,155	2,202
<b>Actions taken by Service management officials as a result of personnel investigations</b>		
Rejected for Employment	146	296
Clearance Letters on Conduct Investigations <sup>1</sup>	( <sup>1</sup> )	174
Disciplinary actions, total	582	714
Separations <sup>2</sup>	222	211
Bribery, extortion, or collusion	8	2
Embezzlement, or theft of Government funds or property	2	4
Failure of employee to pay proper tax	6	9
Falsification or distortion of Government reports, records, etc.	91	101
Unauthorized outside activity	2	9
Failure to discharge duties properly	6	7
Divulgence of confidential information	0	3
Acceptance of fees or gratuities	1	1
Personal and other misconduct	106	75
Suspension from duty and pay	37	34
Reprimands, warnings, or demotions	323	469
Nondisciplinary actions	10,913	9,513 <sup>3</sup>
<b>Other Investigations</b>		
Number of cases closed, total	2,663	3,171
Assault on Service Personnel <sup>4</sup>	( <sup>4</sup> )	17
Disclosure of Official Information	0	2
Applications for admission to practice before the I.R.S.	899	1,178
Charges against Attorneys, CPAs and Enrollees	60	78
Federal Tort Claims	214	180
Bribery	129	130
Discrimination	2	1
Investigations for other Treasury Bureaus	1,359	1,585

<sup>1</sup> Included under nondisciplinary actions in previous years.

<sup>2</sup> Includes resignations, retirements, or other separations while employees were under investigation or before administrative decision was made on disciplinary action where in vestigation disclosed derogatory information.

<sup>3</sup> Excludes nondisciplinary actions in Conduct Investigations.

<sup>4</sup> Data not compiled Inspection for fy. 1971.

**Assaults and Threats**

During the year Internal Security was assigned primary jurisdiction for investigating threats, assaults, and forcible interference against IRS personnel. This additional responsibility is being accorded the highest priority by the Inspection Service.

**Assistance to Other Agencies**

The Internal Security Division conducted 1,585 investigations for other Treasury components. One case involved cooperation with the Federal Bureau of Investigation, Secret Service and the Postal Inspection Service in breaking a refund check theft and cashing scheme in Chicago. Inspectors have participated in details involving protection of dignitaries and civil disturbances. The Service loaned inspectors to the Knapp Commission to investigate corruption in the New



Pictured above on the left is former Assistant Commissioner (Inspection) Vernon D. Acree, receiving an award from Commissioner Johnnie M. Walters. The award was given in appreciation of the magnificent contribution Mr. Acree made during the thirteen years he served as Assistant Commissioner (Inspection).

York City Police Department. Mr. Whitman Knapp, Commission Chairman, commended the Inspectors for an outstanding job. He stressed hope that city departments could "come up with a system similar to the Internal Revenue Service, which is relatively free of corruption because of their fine Inspection Service."

As in prior years, the Service provided assistance to the Virgin Islands in developing and installing a modern tax system. Since 1962, this assistance has significantly contributed to improved operations.



9. Receipts - Ret  
Returns - Filed

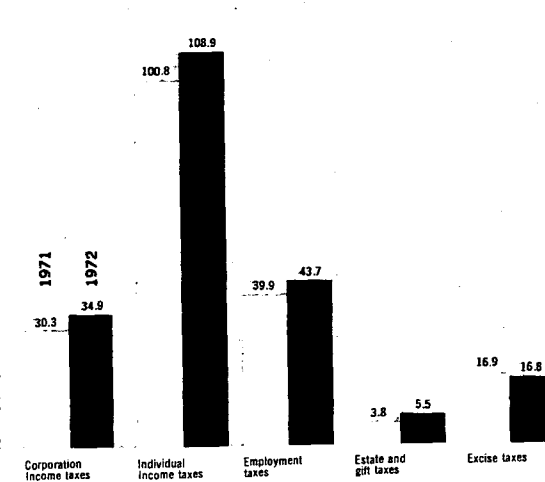
## Gross Collections Rise to Record High

Gross internal revenue collections surpassed \$200 billion for the first time. Contributing to the record level was the largest amount ever collected in one month, \$27.2 billion in April.

Total collections of \$209.9 billion were up \$18.3 billion (9.5%) from fiscal year 1971. The increase was the third largest in history, exceeded only by those in 1967 and 1969. Improved economic conditions, higher corporate profits, and steadily rising salaries and wages were principal factors contributing to the record collection picture. These factors offset overall tax reductions from the Revenue Act of 1971 on individual, corporation, and excise tax collections. The chart at the right presents data on collections for the various tax categories.

## Tax Collections From All Sources

Billions of Dollars



## Gross Internal Revenue Collections

(Dollars in thousands. For details see table 1, p. 102)

Source	Percent of 1972 collections	1971		1972		Increase or Decrease	
		Amount	Percent	Amount	Percent	Amount	Percent
Grand total <sup>1</sup>	100.0	191,647,198	209,855,737	18,208,539	9.5		
Income taxes, total	68.5	131,072,374	143,804,731	12,732,357	15.2		
Corporation	16.6	30,319,953	34,925,546	4,605,593	8.1		
Individual, total	51.9	100,752,421	108,879,186	8,126,765	8.1		
Withheld by employers <sup>2</sup>	39.6	76,490,128	83,200,866	6,710,738	8.8		
Other <sup>2</sup>	12.2	24,262,293	25,678,320	1,416,027	5.8		
Employment taxes, total	20.8	39,918,690	43,714,001	3,795,311	9.5		
Old-age and disability insurance, total	19.8	37,902,403	41,617,156	3,714,753	9.8		
Federal insurance contributions	18.9	35,954,752	39,524,991	3,530,239	10.1		
Self-employment insurance contributions	1.0	1,947,651	2,032,165	84,514	4.3		
Unemployment insurance	0.5	972,409	1,024,069	51,660	5.3		
Railroad retirement	0.5	1,043,878	1,072,776	28,898	2.8		
Estate and gift taxes	2.6	3,784,283	5,489,969	1,705,686	45.1		
Excise taxes, total	8.0	16,871,851	16,847,036	-24,815	-0.1		
Alcohol	2.4	4,800,482	5,110,001	309,519	6.4		
Tobacco	1.1	2,206,585	2,207,273	688	0.03		
Other	4.5	9,864,784	9,529,762	-335,022	-3.4		

<sup>1</sup> Collections are adjusted to exclude amounts transferred to the Government of Guam. For details see table 1, p. 102 and footnote, 4, p. 113.

<sup>2</sup> Estimated.—Collections of individual income tax withheld are not reported separately from old-age and disability insurance taxes on wages and salaries. Similarly, collections on individual income tax not withheld are not reported separately from old-age

and disability insurance taxes on self-employment income. The amount of old-age and disability insurance tax collections shown is based on estimates made by the Secretary of the Treasury pursuant to the provisions of sec. 201(e) of the Social Security Act as amended, and includes all old-age and disability insurance taxes. The estimates shown for the 2 classes of individual income taxes were derived by subtracting the old-age and disability insurance tax estimates from the combined totals reported.

Individual income tax receipts of \$108.9 billion accounted for over one-half of total collections. Corporation income taxes and employment taxes contributed the bulk of the remainder. Other classes of tax showed minor changes.

New withholding rates—provided by the Revenue Act of 1971 have resulted in over-withholding because many taxpayers did not adjust their withholding allowances and exemptions to accord with the new law. The resulting over-withholding naturally boosted collections.

Corporation income tax collections rose by \$4.6 billion, up 15.2 percent. Improved economic conditions and higher corporate profits contributed to the increase. The 7 percent job development credit and accelerated depreciation provisions offset some of the additional collections that would have occurred from rising profits.

Excise taxes levied on a variety

of manufactured products, services, and activities, declined slightly from the 1971 record high. Collections of \$16.8 billion were lower because of the repeal of excise taxes on vehicles. Tobacco tax collections increased from last year, while alcohol tax collections were up \$688 thousand. Over the last 10 years, tobacco tax collections have remained relatively stable while receipts from alcohol tax have increased by almost 50 percent.

Employment taxes amounting to \$43.7 billion, were the second biggest source of revenue. Increased rates for social security (FICA) taxes and self-employment (SECA) taxes were in effect for the full fiscal year. Also, beginning January 1, 1972, the taxable base for both went up from \$7,800 to \$9,000. In addition, as of January 1, 1972, Federal Unemployment Tax Act taxes extended to almost every employer and the wage base was up from \$3,000 to \$4,200.

Over the past eight years, employment taxes have soared from \$17.1 billion to \$43.7 billion in fiscal year 1972, an increase of 156 percent. During this same period, employment tax collections replaced corporation income tax as the second highest source of revenue, increasing from 14.9 percent to 20.8 percent of total collections.

Estate and gift tax collections amounted to \$5.5 billion. Most of the \$1.7 billion growth from last year resulted from an administrative speed-up in collections. A change in the law, effective January 1, 1971, shortened the period for filing estate tax returns and remitting payment from 15 to 9 months.

## Refunds Paid

Although two thirds of the individual taxpayers received refunds in 1972, the total number of refunds declined slightly. The total amount of taxes refunded to all classes of taxpayers was \$18.9 billion, including interest of

Internal Revenue refunds, including interest  
(For refunds by region and district, see table 5, p. 114)

Type of Tax	Number		Amount refunded (principal and interest thousand dollars)		Amount of interest included (thousand dollars)	
	1971	1972	1971	1972	1971	1972
Total refunds of internal revenue <sup>1</sup>	55,916,604	55,154,883	19,022,566	18,970,349	132,140	182,765
Corporation income taxes	264,291	268,559	3,622,489	2,894,407	87,111	134,777
Individual income and employment taxes, total <sup>2</sup>	55,596,555	54,823,523	15,083,753	14,642,417	35,526	38,704
Excessive prepayment income tax <sup>3</sup>	54,285,510	53,203,811	14,207,752	13,750,862	18,498	16,397
Other income tax and Federal Insurance Contributions Act taxes <sup>4</sup>	1,263,196	1,543,374	866,701	877,554	16,644	21,930
Railroad retirement	546	458	285	619	56	7
Unemployment insurance	47,303	75,880	9,014	13,382	328	370
Estate tax	12,789	15,346	5,275	52,702	6,386	5,235
Gift tax	1,705	2,110	3,234	7,501	399	860
Excise taxes, total	41,264	45,345	260,333	1,373,322	2,719	3,188
Alcohol <sup>5</sup>	8,918	8,320	104,911	106,031	24	6
Tobacco taxes <sup>6</sup>	234	390	1,566	2,102	(*)	(*)
Manufacturers' and retailers' excise taxes, total	4,636	5,094	128,583	1,246,972	437	1,951
Gasoline used on farms	369	62	82,638	103,619		
Gasoline, nonhighway	1,291	1,247	19,275	23,120		
Other <sup>7</sup>	2,976	3,785	26,670	1,120,233	437	1,951
All other excise taxes <sup>7</sup>	27,476	31,541	25,272	18,217	2,257	1,231

<sup>1</sup> Figures have not been reduced to reflect reimbursements from the Federal Old-Age and Survivors, Federal Disability, and Federal Hospital Insurance Trust Funds amounting to \$517,514,000 in 1971 and \$447,332,000 in 1972 from the Highway Trust Fund amounting to \$122,296,000 in 1971 and \$144,325,000 in 1972; and from the unemployment Trust Fund amounting to \$9,014,000 in 1971 and \$13,382,000 in 1972.

<sup>2</sup> Net of 96,148 undeliverable checks totaling \$14,547,000 in 1971

and 80,725 undeliverable checks totaling \$14,082,000 in 1972.

<sup>3</sup> Includes refunds "not otherwise classified."

<sup>4</sup> Includes excess FICA credits.

<sup>5</sup> Includes drawbacks and stamp redemptions.

<sup>6</sup> Includes lubricating oil used for nonhighway purposes.

<sup>7</sup> Includes narcotics, silver, wagering (excise and stamps), capital stock, and other excise tax refunds.

\* Less than \$500.

\$182.8 million. Income tax refunded to corporations declined \$728 million from 1971. Refunds to individuals were down slightly, both in number and size of refund. The average refund was \$251. While the retroactive repeal of automobile excise taxes did not greatly increase the number of refunds (because sellers claimed the refunds and distributed the money to consumers), it did result in a record amount of excise tax refunded.

### Three New Centers Constructed

The Internal Revenue Service has constructed new service centers in Memphis, Tennessee; Fresno, California; and Brookhaven, New York to better cope with the burgeoning processing task.

The Memphis Center began processing 1971 individual income tax returns in January 1972 for taxpayers residing in Kentucky, Tennessee and Virginia. Starting in January 1973, this center will process individual business returns from North Carolina, Indiana and West Virginia.

Also, in January 1972, the Fresno Service Center started processing individual income tax returns received from the San Francisco and Honolulu Districts. Individual returns from the Los Angeles District will be processed in Fresno starting January 1973. All other returns for these three districts will be processed in Fresno beginning in July 1972.

The Service Center in Brookhaven, N. Y. will start processing returns for the Brooklyn and Manhattan Districts on July 1, 1972, and returns for the Newark District in October 1972.

### Increase in Returns Filed

One of every three Americans filed an income tax return in 1972. Three of every four individuals who filed returns received refunds.

About one-half million taxpayers took advantage of the new automatic extension, which postpones the filing deadline without penalty, provided the request is accompanied by payment of the tax liability.

Taxpayers filed 112 million returns of all types in 1972. The 75.7 million individual income tax returns accounted for 66 percent of the total, while the 22 million employment tax returns accounted for 20 percent of all returns received.

The following table presents data on returns filed by type of return for 1971 and 1972.

Number of returns filed, by principal type of return

(Figures in thousands. For details, see table 7, p. 115)

Type of return	1971	1972
Grand total	111,447	112,000
Income tax, total	87,842	88,289
Individual and fiduciary, total	76,620	77,106
Individual-citizens and resident aliens, total	75,280	75,684
All other individual and fiduciary	1,340	1,422
Declarations of estimated tax, total	7,408	7,328
Individual	7,408	7,328
Corporation	NA	NA
Partnerships	1,052	1,029
Corporations	1,821	1,881
Other	942	955
Employment tax, total	21,889	22,007
Employers' Form 941	15,757	16,068
Employers' Form 942 (household employees)	3,854	3,616
Employers' Form 943 (agricultural employees)	501	475
Railroad retirement, Forms CT-1, CT-2	16	15
Unemployment insurance, Form 940	1,761	1,832
Gift tax	165	181
Excise tax, total	1,401	1,311
Occupational tax	701	574
Form 720 (retailers, manufacturers, etc.)	308	297
Alcohol	22	20
Tobacco	5	5
Highway use tax	237	285
Other	127	120

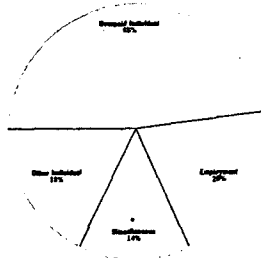


Service centers process a large volume of tax returns through many operations. Commissioner Johnnie M. Walters (seated) reviews a data extracting process during a visit to the Ogden, Utah Service Center. He is accompanied by (l. to r.) Marie Morris, Ogden Service Center; Homer Crossman, Regional Commissioner, Western Region; William I. Greener, Jr., Assistant to the Commissioner (Public Affairs); and Robert H. Terry, Ogden Service Center Director.



The Service sends millions of tax packages to taxpayers in advance of the filing season. Francis Brownell, Director of the Andover, Mass., Service Center checks the automated processing assembly through which 11.9 million Forms 1040 were mailed to taxpayers throughout New England and New York.

**INDIVIDUAL  
INCOME TAX RETURNS  
ACCOUNTED FOR TWO  
OF EVERY THREE RETURNS  
RECEIVED IN 1972**



\*Includes Corporation, Estate, GR, and Estate Tax Returns

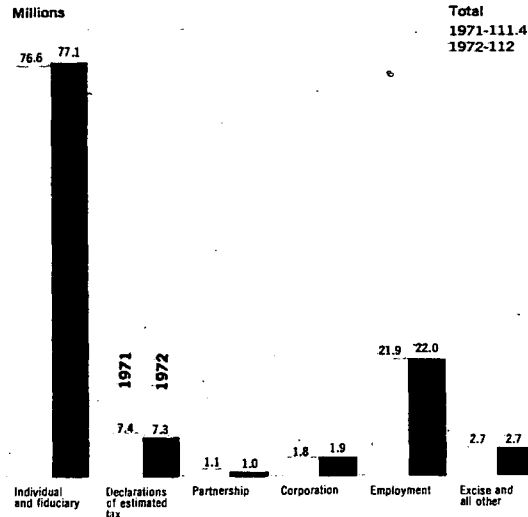
**Mathematical  
Verification by  
Computer**

Service center computers checked the mathematics on 72.5 million individual income tax returns in 1972. Computers detected errors on 2.2 million returns that resulted in \$239 million in additional tax liability. Taxpayers erred against themselves on 1.6 million returns. The Service decreased their reported liability by \$119.4 million. The net yield to the Government from the validation of individual returns was \$119.6 million or \$1.65 per return verified.

Individual income tax returns mathematically verified

Item		1971	1972
Number	thousands	72,938	72,482
Number of returns on which changes were made	do	4,647	3,762
Returns with increase:			
Number	do	2,905	2,162
Amount	thousand dollars	313,052	238,882
Returns with decrease:			
Number	thousands	1,742	1,599
Amount	thousand dollars	140,235	118,406
Net Yield:			
Total	do	172,817	119,577
Average per return verified	dollars	2.37	1.65

**Increase in Number of Returns Filed**



Direct data entry equipment permits Service personnel to transcribe information directly from a tax return or other document onto magnetic tape without going through the intermediate step of putting the data on keypunch cards. The operator pictured above can see on a video tube the data transcribed so that if a mistake is made it can be immediately corrected.

**Income Sources Reported on  
Magnetic Tape Increases**

The Service received almost 380 million information documents (reporting wages, interest and dividends) in 1972. Almost 90 million of these documents were on magnetic tape which helped reduce the amount of paperwork processing.

INFORMATION DOCUMENTS REPORTED ON MAGNETIC TAPE

Tax Year	Documents (Thousands)	Reporting Entities
1966	26,248	591
1967	35,432	1,048
1968	47,686	2,426
1969	58,951	2,963
1970	68,300	4,637
1971	89,162	6,583

Information documents reported on magnetic tape

**Organization—  
Principal  
Officers**

Organization of the  
Internal Revenue Service

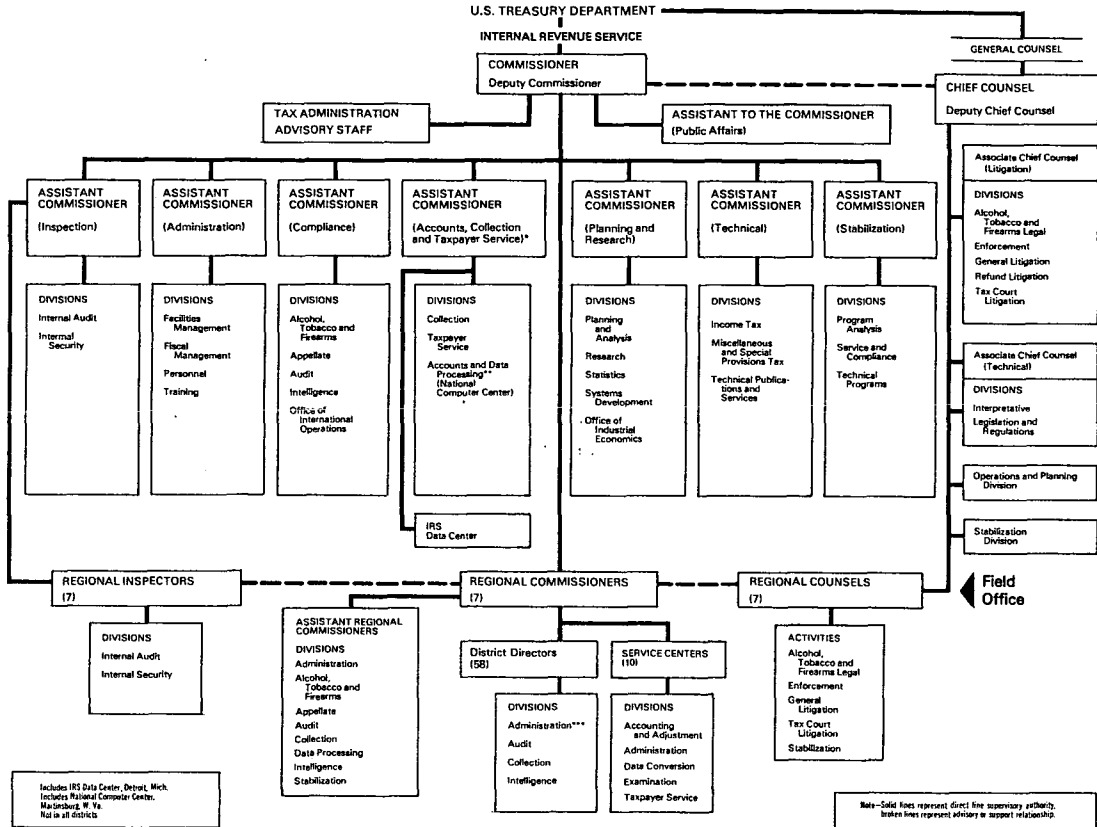
Internal Revenue  
Regions and Districts

Principal Officers

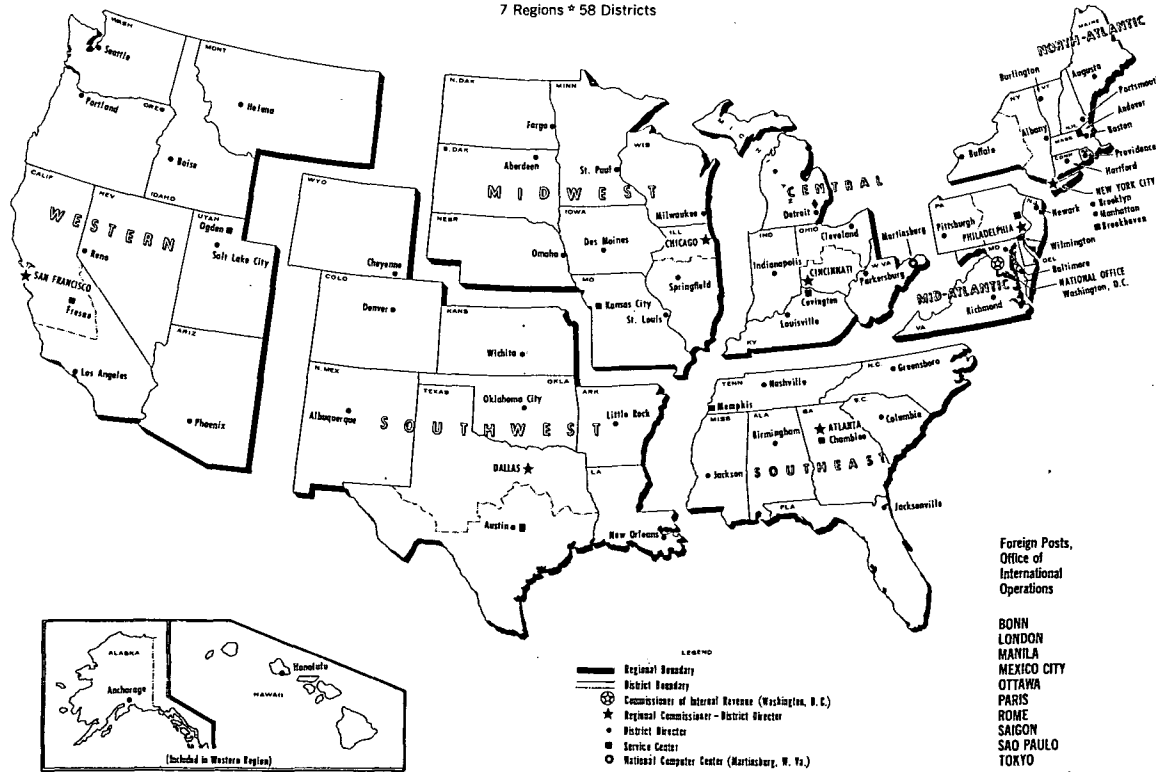
Historical  
List of Commissioners



INTERNAL REVENUE SERVICE ORGANIZATION



Internal Revenue Service  
7 Regions \* 58 Districts



## Principal Officers of the Internal Revenue Service

As of June 30, 1972

### National Officers

#### Office of the Commissioner

**Commissioner**  
Johnnie M. Walters  
**Deputy Commissioner**  
Raymond F. Harless  
**Assistant to the Commissioner**  
Edwin M. Perkins  
**Assistant to the Commissioner**  
Roger V. Barth  
**Assistant to the Commissioner**  
(Public Affairs)  
William I. Greener, Jr.  
**Assistant to the Deputy Commissioner**  
Donald C. Dawkins  
**Chairman, Tax Forms Coordinating Committee**  
James N. Kinsel  
**Director, Tax Administration Advisory Staff**  
Joseph R. Harmon

#### Administration

**Acting Assistant Commissioner**  
Alvin M. Kelley  
**Director, Program Staff**  
Julius H. Lauderdale  
**Division Directors:**  
**Facilities Management**  
Leo C. Inglesby  
**Fiscal Management**  
Alan A. Beck  
**Personnel**  
Albert J. Schaffer  
**Training (Acting)**  
James R. Stone  
**Equal Employment Opportunity Officer**  
Philip N. Sansotta

#### Compliance

**Assistant Commissioner**  
John F. Hanlon  
**Deputy Assistant Commissioner (Acting)**  
Joseph G. McGowan  
**Division Directors:**  
**Alcohol, Tobacco, and Firearms**  
Rex D. Davis  
**Appellate**  
Arthur H. Klotz  
**Audit**  
Singleton B. Wolfe  
**Intelligence**  
Robert K. Lund  
**Office of International Operations**  
Clarence I. Fox

#### Accounts, Collections and Taxpayer Service

**Assistant Commissioner**  
Dean J. Barron  
**Deputy Assistant Commissioner**  
Gerald G. Portney  
**Division Directors:**  
**Collection Division**  
Harold E. Snyder  
**Taxpayer Service**  
William F. Culliney  
**Accounts and Data Processing**  
Donald G. Elsberry  
**IRS Data Center, Detroit, Mich.**  
Ernest Shaw  
**National Computer Center, Martinsburg, W. Va.**  
Eddie Heironimus

#### Inspection

**Assistant Commissioner (Acting)**  
Francis I. Geibel  
**Division Directors:**  
**Internal Audit (Acting)**  
William C. Rankin  
**Internal Security**  
Raymond N. Kiely

#### Planning and Research

**Assistant Commissioner (Acting)**  
James R. Turner  
**Division Directors:**  
**Planning and Analysis**  
Ramon L. Ray  
**Research (Acting)**  
Claude D. Baldwin  
**Statistics**  
Vito Natrella  
**Systems Development**  
Lancelot W. Armstrong  
**Office of Industrial Economics (Acting)**  
Seymour Fiekowsky

#### Technical

**Assistant Commissioner**  
Peter P. Weidenbruch, Jr.  
**Deputy Assistant Commissioner**  
Richard J. Stakem  
**Division Directors:**  
**Income Tax**  
John W. S. Littleton  
**Miscellaneous and Special Provisions Tax**  
Linder Hamblen  
**Technical Publications and Services (Acting)**  
Roy J. Linger

#### Economic Stabilization

**Acting Assistant Commissioner**  
Edward F. Preston  
**Division Directors:**  
**Technical Programs**  
William H. Connett  
**Service and Compliance**  
Stanley Goldberg  
**Program Analysis**  
William Daniel

#### Office of Chief Counsel

**Chief Counsel**  
Lee H. Henkel  
**Technical Advisor to Chief Counsel**  
Robert B. Jacoby  
**Special Assistant to Chief Counsel (Vacant)**  
**Special Assistant to Chief Counsel**  
Lester Stein  
**Associate Chief Counsel (Litigation)**  
John T. Rogers  
**Division Directors:**  
**Alcohol, Tobacco, and Firearms (Legal)**  
Matthew J. Werneth  
**General Litigation**  
J. Walter Feigenbaum  
**Enforcement (Acting)**  
Albert L. Henkle  
**Refund Litigation**  
John W. Holt  
**Tax Court Litigation**  
Robert A. Bridges  
**Associate Chief Counsel (Technical)**  
Richard M. Hahn  
**Special Assistant to Chief Counsel**  
Arthur B. White  
**Division Directors:**  
**Interpretative**  
John L. Withers  
**Legislation and Regulations**  
James F. Dring  
**Operations and Planning**  
William P. Crewe

#### Central Region

All Regional Offices at 550 Main Street, Cincinnati, Ohio 45202, unless a different address is indicated.

**Regional Commissioner**  
Charles G. Keebler

**Assistant Regional Commissioners:**  
**Administration**  
Arthur J. Collinson  
**Alcohol, Tobacco, and Firearms**  
Fred Murrell  
**Appellate**  
W. Franklin Hammack  
**Audit**  
Michael A. DeGuire  
**Accounts, Collection & Taxpayer Service**  
Wayne S. Kegerreis  
**Intelligence**  
Harold B. Holt  
**Stabilization**  
Edgar H. Hughson

#### District Directors:

Cincinnati, Ohio 45202  
Paul A. Schuster  
Cleveland, Ohio 44199  
Frank S. Turbett, Jr.  
Detroit, Mich. 48226  
Thomas A. Cardoza  
Indianapolis, Ind. 46204  
James E. Daly  
Louisville, Ky. 40202  
Robert J. Dath  
Parkersburg, W. Va. 26101  
H. Daniels Jones

**Director, Central Service Center, Covington, Ky. 41019**

Patrick J. Ruttle

**Regional Counsel**  
Clarence E. Price

**Regional Inspector**  
Edward A. Conroy

#### Mid-Atlantic Region

All Regional Offices at 2 Penn Center Plaza, Philadelphia, Pa. 19102, unless a different address is indicated

**Regional Commissioner**  
Edward J. Fitzgerald

**Assistant Regional Commissioners:**  
**Administration**  
Americo P. Attorri  
**Alcohol, Tobacco, and Firearms**  
Edward J. Fox  
**Appellate**  
Victor Cuniglio  
**Audit**  
Dwight L. James  
**Accounts, Collection & Taxpayer Service**  
Anthony L. Carrea  
**Intelligence**  
Amerigo R. Manzi  
**Stabilization**  
Edward J. Manning

#### District Directors:

Baltimore, Md. 21201  
Irving Machiz  
Newark, N.J. 07102  
Roland H. Nash, Jr.  
Philadelphia, Pa. 19108  
Alfred L. Whinston  
Pittsburgh, Pa. 15222  
H. Alan Long  
Richmond, Va. 23240  
James P. Boyle  
Wilmington, Del. 19801  
Charles O. DeWitt

**Director, Mid-Atlantic Service Center, Philadelphia, Pa. 19155**

Norman E. Morrill  
**Regional Counsel**  
Emory L. Langdon

**Regional Inspector, Bankers Securities Building, Walnut and Juniper Streets, Philadelphia, Pa. 19017**  
Emanuel L. Schuster

**Southeast Region**

All Regional Offices at 275 Peachtree Street, N.E., Atlanta, Ga. 30303, unless a different address is indicated.

*Regional Commissioner*  
William J. Bookholt

*Assistant Regional Commissioners:*  
*Administration*  
Richard C. McCullough  
*Alcohol, Tobacco, and Firearms*  
William N. Griffin  
*Appellate*  
Vance N. Bates  
*Audit*  
Harold B. Bindseil  
*Accounts, Collection & Taxpayer Service*  
James G. Martin, Jr.  
*Intelligence*  
Edmund J. Vitkus  
*Stabilization*  
Richard C. Lewis

**District Directors:**

Atlanta, Ga. 30303  
Walter T. Coppinger  
Birmingham, Ala. 35203  
Dwight T. Baptist  
Columbia, S.C. 29201  
Harold M. McLeod  
Greensboro, N.C. 27401  
John E. Wall  
Jackson, Miss. 39202  
John W. Henderson  
Jacksonville, Fla. 32202  
Andrew J. O'Donnell, Jr.  
Nashville, Tenn. 37203  
James A. O'Hara

*Director, Southeast Service Center, Chamblee, Ga. 30006*  
Donald H. Hollums  
Memphis, Tenn. 38130  
Claude A. Kyle

*Regional Counsel*  
Henry C. Stockell, Jr.

*Regional Inspector*  
Delmar L. Janney

**Southwest Region**

All Regional Offices at 1114 Commerce Street, Dallas, Tex. 75202, unless a different address is indicated.

*Regional Commissioner*  
Albert W. Brisbin

*Assistant Regional Commissioners:*  
*Administration*  
George E. Andreason  
*Alcohol, Tobacco, and Firearms*  
Billy L. Gaunt  
*Appellate*  
Roydell S. Rosfeld  
*Audit*  
Howard C. Longley  
*Accounts, Collection & Taxpayer Service*  
George M. Oliver  
*Intelligence*  
Robert D. Elledge  
*Stabilization*  
Alfred N. Kay

**District Directors:**

Albuquerque, N. Mex. 87101  
Maurice E. Johnson  
Austin, Tex. 78701  
R. L. Phinney  
Cheyenne, Wyo. 82001  
T. Blair Evans  
Dallas, Tex. 75202  
(Vacant)  
Denver, Colo. 80202  
Arthur A. Kennedy  
Little Rock, Ark. 72203  
Emmett E. Cook, Jr.  
New Orleans, La. 70130  
Carl R. Gromatzky  
Oklahoma City, Okla. 73102  
Clyde L. Bickerstaff  
Wichita, Kans. 67202  
(Vacant)

*Director, Southwest Service Center, Austin, Tex. 78740*  
Ervin B. Osborn

*Regional Counsel, 1025 Elm Street, Dallas, Tex. 75202*  
William B. Riley

*Regional Inspector (Acting), 1511 Bryan Street, Dallas, Tex. 75201*  
Paul F. Kearns

**Midwest Region**

All Regional Offices at 35 East Wacker Drive, Chicago, Ill. 60601, unless a different address is indicated.

*Regional Commissioner*  
Edwin P. Trainor

*Assistant Regional Commissioners:*  
*Administration*  
Roy D. Clark  
*Alcohol, Tobacco, and Firearms*  
Cecil M. Wolfe  
*Appellate*  
(Vacant)  
*Audit*  
John H. Rauert, Jr.  
*Accounts, Collection & Taxpayer Service*  
Donald J. Porter  
*Intelligence*  
John J. Olszewski  
*Stabilization (Acting)*  
Richard C. Voskuil

**District Directors:**

Aberdeen, S. Dak. 57401  
John B. Langer  
Chicago, Ill. 60602  
Roger C. Beck  
Des Moines, Iowa 50309  
Herbert B. Mosher  
Fargo, N. Dak. 58102  
Frederick G. Kniskern  
Milwaukee, Wis. 53202  
Walter S. Stumpf  
Omaha, Nebr. 68102  
Richard P. Vinal  
St. Louis, Mo. 63101  
Eugene C. Coyle  
St. Paul, Minn. 55101  
George O. Lethert  
Springfield, Ill. 62704  
Jay G. Philpott

*Director, Midwest Service Center, Kansas City, Mo. 64170*  
Arnold S. Dreyer

*Regional Counsel*  
Frank C. Conley

*Regional Inspector*  
William E. Mulroy

**North-Atlantic Region**

All Regional Offices at 90 Church Street, New York, N.Y. 10007, unless a different address is indicated.

*Regional Commissioner*  
John J. Flynn

*Assistant Regional Commissioners:*  
*Administration*  
Harry J. Bodkin  
*Alcohol, Tobacco, and Firearms*  
John L. Piper  
*Appellate*  
Theodore C. Rademaker  
*Audit*  
William M. Wolf  
*Accounts, Collection & Taxpayer Service*  
Marshall P. Cappelli  
*Intelligence*  
Howard F. McHenry  
*Stabilization*  
Raymond I. Maller

**District Directors:**

Albany, N.Y. 12206  
Donald T. Hartley  
Augusta, Maine 04330  
Whitney L. Wheeler  
Boston, Mass. 02203  
William E. Williams  
Brooklyn, N.Y. 11201  
Elmer H. Klinsman  
Buffalo, N.Y. 14202  
John E. Foley  
Burlington, Vt. 05401  
Fulton D. Fields  
Hartford, Conn. 06103  
Joseph J. Conley, Jr.  
Manhattan, N.Y. 10007  
Elliott H. Gray  
Portsmouth, N.H. 03801  
Frank W. Murphy  
Providence, R.I. 02903  
John J. O'Brien

*Director, North-Atlantic Service Center Andover, Mass. 01802*  
Francis L. Browitt

*Director, North-Atlantic Service Center, Brookhaven, N.Y. 11716*  
Earl L. Torgerson

*Regional Counsel, 26 Federal Plaza, New York, N.Y. 10007*  
Marvin E. Hagen

*Regional Inspector, 26 Federal Plaza, New York, N.Y. 10007*  
Sidney M. Wolk

**Western Region**

All Regional Offices at 870 Market Street, San Francisco, Calif. 94102, unless a different address is indicated.

*Regional Commissioner*  
Homer O. Croasmun

*Assistant Regional Commissioners:*  
*Administration (Acting)*  
Warren S. DeWeese  
*Alcohol, Tobacco, and Firearms*  
Brenton G. Thorne  
*Appellate*  
Wallace J. Spencer, Jr.  
*Audit*  
George S. Heard  
*Accounts, Collection & Taxpayer Service*  
Charles D. Moran  
*Intelligence*  
Herman F. Kuehl  
*Stabilization*  
Joseph T. Davis

**District Directors:**

Anchorage, Alaska 99501  
(Vacant)  
Boise, Idaho 83707  
Calvin E. Wright  
Helena, Mont. 59601  
Neelson L. Sealey  
Honolulu, Hawaii 96813  
Robert M. Cutts  
Los Angeles, Calif. 90012  
Frank S. Schmidt  
Phoenix, Ariz. 85025  
Alden W. McCannless  
Portland, Ore. 97204  
Ralph B. Short  
Reno, Nevada 89502  
Wallace A. Bates  
Salt Lake City, Utah 84110  
Roland V. Wise  
San Francisco, Calif. 94102  
(Vacant)  
Seattle, Wash. 98121  
(Vacant)

*Director, Western Service Center, Ogden, Utah 84405*  
Robert H. Terry

*Director, Western Service Center, Fresno, Calif. 93730*  
Leonard E. Semrick

*Regional Counsel, 447 Sutter Street, San Francisco, Calif. 94108*

Richard C. Schwartz

*Regional Inspector, 1076 Mission Street, San Francisco, Calif. 94103*

Frederick R. Rowe, Jr.

**Historical List of Commissioners of Internal Revenue**

Office of Commissioner of Internal Revenue created by Act of Congress, July 1, 1862

In addition, the following were Acting Commissioners during periods of time when there was no Commissioner holding the office: John W. Douglass, of Pennsylvania, from Nov. 1, 1870, to Jan. 2, 1871; Henry C. Rogers, of Pennsylvania, from May 1 to May 10, 1883, and from May 1 to June 4, 1907; John J. Knox, of Minnesota, from May 11 to May 20, 1883; Robert Williams, Jr., of Ohio, from Nov. 28 to Dec. 19, 1900; Millard F. West, of Kentucky, from Apr. 12 to May 26, 1921; H. F. Mires, of Washington, from Aug. 16, to Aug. 19, 1930; Pressly R. Baldrige, of Iowa, from May 16 to June 5, 1933; Harold N. Graves, of Illinois, from Jan. 23 to Feb. 25, 1944; John S. Graham, of North Carolina, from Nov. 19, 1952, to Jan. 19, 1953; Justin F. Winkle, of New York, from Jan. 20 to Feb. 3, 1953; O. Gordon Delk, of Virginia, from Nov. 1 to Dec. 4, 1955, and from Oct. 1 to Nov. 4, 1958; Charles I. Fox, of Utah, from Jan. 21 to Feb. 6, 1961; Bertrand M. Harding, of Texas, from July 11, 1964 to Jan. 24, 1965; and William H. Smith of Virginia, from Jan. 21 to Mar. 31, 1969; Harold T. Swartz of Indiana, from June 23, 1971 to Aug. 5, 1971.

**George S. Boutwell**  
Massachusetts  
July 17, 1862/Mar. 4, 1863

**Joseph J. Lewis**  
Pennsylvania  
Mar. 18, 1863/June 30, 1865

**William Orton**  
New York  
July 1, 1865/Oct. 31, 1865

**Edward A. Rollins**  
New Hampshire  
Nov. 1, 1865/Mar. 10, 1869

**Columbus Delano**  
Ohio  
Mar. 11, 1869/Oct. 31, 1870

**Alfred Pleasonton**  
New York  
Jan. 3, 1871/Aug. 8, 1871

**John W. Douglass**  
Pennsylvania  
Aug. 9, 1871/May 14, 1875

**Daniel D. Pratt**  
Indiana  
May 15, 1875/July 31, 1876

**Green B. Raum**  
Illinois  
Aug. 2, 1876/Apr. 30, 1883

**Walter Evans**  
Kentucky  
May 21, 1883/Mar. 19, 1885

**Joseph S. Miller**  
West Virginia  
Mar. 20, 1885/Mar. 20, 1889

**John W. Mason**  
West Virginia  
Mar. 21, 1889/Apr. 18, 1893

**Joseph S. Miller**  
West Virginia  
Apr. 19, 1893/Nov. 26, 1896

**W. St. John Forman**  
Illinois  
Nov. 27, 1896/Dec. 31, 1897

**Nathan B. Scott**  
West Virginia  
Jan. 1, 1898/Feb. 28, 1899

**George W. Wilson**  
Ohio  
Mar. 1, 1899/Nov. 27, 1900

**John W. Yerkes**  
Kentucky  
Dec. 20, 1900/Apr. 30, 1907

**John G. Capers**  
South Carolina  
June 5, 1907/Aug. 31, 1909

**Royal E. Cabell**  
Virginia  
Sept. 1, 1909/Apr. 27, 1913

**William H. Osborn**  
North Carolina  
Apr. 28, 1913/Sept. 25, 1917

**Daniel C. Roper**  
South Carolina  
Sept. 26, 1917/Mar. 31, 1920

**William M. Williams**  
Alabama  
Apr. 1, 1920/Apr. 11, 1921

**David H. Blair**  
North Carolina  
May 27, 1921/May 31, 1929

**Robert H. Lucas**  
Kentucky  
June 1, 1929/Aug. 15, 1930

**David Burnet**  
Ohio  
Aug. 20, 1930/May 15, 1933

**Guy T. Helevering**  
Kansas  
June 6, 1933/Oct. 8, 1943

**Robert E. Hannegan**  
Missouri  
Oct. 9, 1943/Jan. 22, 1944

**Joseph D. Nunan, Jr.**  
New York  
Mar. 1, 1944/June 30, 1947

**George J. Schoeneman**  
Rhode Island  
July 1, 1947/July 31, 1951

**John B. Dunlap**  
Texas  
Aug. 1, 1951/Nov. 18, 1952

**T. Coleman Andrews**  
Virginia  
Feb. 4, 1953/Oct. 31, 1955

**Russell C. Harrington**  
Rhode Island  
Dec. 5, 1955/Sept. 30, 1958

**Dana Latham**  
California  
Nov. 5, 1958/Jan. 20, 1961

**Mortimer M. Caplin**  
Virginia  
Feb. 7, 1961/July 10, 1964

**Sheldon S. Cohen**  
Maryland  
Jan. 25, 1965/Jan. 20, 1969

**Randolph W. Thrower**  
Georgia  
Apr. 1, 1969/June 22, 1971

**Johnnie M. Walters**  
South Carolina  
Aug. 6, 1971

## Appendix

Taxpayer  
Publications

Tax Forms  
Activity

Supreme Court  
Decisions

Actions of  
Lower Courts

Tax Legislation  
Enacted

Tax Legislation  
Pending

**Publication Number/  
Title**

**17**  
Your Federal Income Tax.  
Price 75¢

**54**  
Tax Guide for U.S. Citizens  
Abroad

**76**  
Law and Regulations relating to  
the treatment of Annuities for  
Income Tax purposes. Price 45¢  
(revised 5-69)

**225**  
Farmer's Tax Guide

**334**  
Tax Guide for Small Business.  
Price 75¢

**337**  
Law and Regulations Relating to  
Employee Pension, Annuity,  
Profit-Sharing, Stock Bonus, and  
Bond Purchase Plans Including  
Plans for Self-Employed Individ-  
uals. Price 70¢ (revised 7-68)

**349**  
Federal Use Tax on Trucks,  
Truck-Tractors and Buses

**377**  
Pension Trust Procedures and  
Guides for Qualification Under  
Section 401(a) and 405(a) of the  
Internal Revenue Code of 1954.  
Price 35¢

**378**  
Federal Fuel Tax Credit or Refund  
for Nonhighway and Transit Users

**448**  
A Guide to Federal Estate and  
Gift Taxation. Price 50¢  
(revised 7-71)

**463**  
Travel, Entertainment and Gift  
Expenses

**501**  
Your Exemptions and Exemptions  
for Dependents

**502**  
Deduction for Medical and  
Dental Expenses

**503**  
Child Care and Disabled  
Dependent Care

**504**  
Income Tax Deductions for  
Alimony Payments

**505**  
Tax Withholding and Declaration  
of Estimated Tax

**506**  
Computing Your Tax Under the  
Income Averaging Method

**508**  
Tax Information on Educational  
Expenses

**509**  
Tax Calendar and Check List  
for 1972

**510**  
Information on Excise Taxes for  
1972

**511**  
Sales and Other Dispositions of  
Depreciable Property

**512**  
Credit Sales by Dealers in  
Personal Property

**513**  
Tax Information for Visitors to the  
United States

**514**  
Foreign Tax Credit for U.S.  
Citizens and Resident Aliens

**515**  
Withholding of Tax on  
Nonresident Aliens and  
Foreign Corporations

**516**  
Tax Information for U.S.  
Government Civilian Employees  
Stationed Abroad

**517**  
Social Security for Clergymen  
and Religious Workers

**518**  
Foreign Scholars and Educational  
and Cultural Exchange Visitors

**519**  
United States Tax Guide for  
Aliens

**520**  
Tax Information for American  
Scholars in the U.S. and Abroad

**521**  
Tax Information on Moving  
Expenses

**522**  
Adjustments to Income for  
Sick Pay

**523**  
Tax Information on Selling  
Your Home

**524**  
Retirement Income and  
Retirement Income Credit

**525**  
Taxable Income and Nontaxable  
Income

**526**  
Income Tax Deduction for  
Contributions

**527**  
Rental Income and Royalty  
Income

**528**  
Information on Filing Your Tax  
Return

**529**  
Other Miscellaneous Deductions

**530**  
Tax Information on Deductions  
for Homeowners

**531**  
Reporting Your Tips for Federal  
Tax Purposes

**532**  
Tax Information for Students  
and Parents

**533**  
Information on Self-Employment  
Tax

**534**  
Depreciation, Amortization, and  
Depletion (Includes Class Life  
Asset Depreciation Range  
System)

**535**  
Tax Information on Business  
Expenses

**536**  
Losses From Operating a  
Business

**537**  
Installment and Deferred-  
Payment Sales

**538**  
Tax Information on Accounting  
Periods and Methods

**539**  
Withholding Taxes From Your  
Employee's Wages

**540**  
Tax Information on Repairs,  
Replacements, and Improvements

**541**  
Tax Information on Partnership  
Income and Losses

**542**  
Corporations and the Federal  
Income Tax

**543**  
Tax Information on the Sale of  
a Business

**544**  
Sales and Exchanges of Assets

**545**  
Income Tax Deduction for  
Interest Expense

**546**  
Income Tax Deduction for Taxes

**547**  
Tax Information on Disasters  
Casualty Losses, and Thefts

**548**  
Tax Information on Deduction  
for Bad Debts

**549**  
Condemnations of Private  
Property for Public Use

**550**  
Tax Information on Investment  
Income and Expenses

**551**  
Tax Information on Cost or  
Other Basis of Assets

**552**  
Recordkeeping Requirements  
and a Guide to Tax Publications

**553**  
Highlights of 1971 Changes in  
the Tax Law

**554**  
Tax Benefits for Older Americans

**555**  
Community Property and the  
Federal Income Tax

**556**  
Audit of Returns, Appeal Rights  
and Claims for Refund

**557**  
How to Apply for Recognition of  
Exemption for an Organization

**558**  
Tax Information for Sponsors of  
Contests and Sporting Events

**559**  
Federal Tax Guide for Survivors,  
Executors, and Administrators

**560**  
Retirement Plans for Self-  
Employed Individuals

**561**  
Valuation of Donated Property

**563**  
Tax Return Filing Requirements  
for U.S. Citizens Abroad

**564**  
Tax Information on Mutual Fund  
Distributions

**565**  
Tax Information on the Interest  
Equalization Tax

**566**  
Questions and Answers on  
Retirement Plans for the  
Self-Employed

**567**  
Tax Advice on Civil Service  
Disability Retirement Payments

**568**  
Federal Tax Information for Civil  
Service Retirees

**569**  
Questions Asked by U.S.  
Taxpayers Abroad

**570**  
Tax Guide for U.S. Citizens  
Employed in U.S. Possessions

**571**  
Tax-Sheltered Annuity Plans for  
Employees of Public Schools  
and Certain Tax-Exempt  
Organizations

**572**  
Tax Information on Investment  
Credit

**573**  
Interest Equalization Tax  
Highlights

**575**  
Tax Information on Pensions and  
Annuities

**576**  
Tax Information on United States  
Savings Bonds

577 Amortization of Pollution Control Facilities

579 Información sobre la Preparación y Presentación de la Declaración del Impuesto Federal sobre Ingreso Individual

721 Comprehensive Tax Guide to U.S. Civil Service Retirement Benefits. Price 70¢

778 Guides for Qualification of Pension, Profit-Sharing, and Stock Bonus Plans. Price 35¢

### Tax Forms Activity

The following new forms were issued:

Number/Title  
**990—Schedule A**  
Organizations Exempt Under 501(c)(3) Supplementary Information.  
**990—Schedule B**  
Exempt Private Foundations (Defined in Section 509(a) and Exempt Under Section 501(a) Determination of Liability for Chapter 42 Taxes.  
**1041—Schedule PF**  
Determination of Liability for Chapter 42 Tax Trusts Described in Section 4947(a)

**1099-DIV**  
U.S. Information Return for Recipients of Dividends and Distributions

**1099-INT**  
U.S. Information Return for Recipients of Interest Income

**1099-MISC**  
U.S. Information Return for Recipients of Miscellaneous Income

**4782**  
Employee Moving Expense Information

**4789**  
Currency Transaction Report

**4790**  
Report of International Transportation of Currency or Monetary Instruments

**4797**  
Supplemental Schedule of Gains and Losses

**4831**  
Rental Income

**4832**  
Asset Depreciation Range

**4835**  
Farm Rental Income (crop share) and Expenses

**4848**  
Annual Employer's Return for Employees' Pension or Profit-Sharing Plan

**4848—Schedule A**  
Annual Status Report of an Employees' Pension or Profit-Sharing Plan

**4849**  
Financial Statement of Employees' Pension or Profit-Sharing Fund or Fiduciary Account

**4868**  
Application for Automatic Extension of Time to File U.S. Individual Income Tax Return

**4876**  
Election to be Treated as a DISC

**4908**  
Declaration of a Candidate for Public Office Receiving Political Contributions Qualifying for Credit or Deduction

**4909**  
Declaration of Campaign Committee Receiving Political Contributions Qualifying for Credit or Deduction.

### The following forms were eliminated:

**W-4—Schedule A**  
Additional Withholding Allowances Based on Itemized Deductions

**1001**  
Ownership Certificate

**1001-A**  
Ownership Certificate—Austria

**1001-B**  
Exemption or Reduced Rate Certificate—Belgium

**1001A-B**  
Exemption or Reduced Rate Certificate—Belgium

**1001-C**  
Ownership Certificate—Canada

**1001A-C**  
Exemption or Reduced Rate Certificate—Canada

**1001-D**  
Ownership Certificate—Denmark

**1001A-D**  
Exemption Certificate—Denmark

**1001-FIN**  
Ownership Certificate—Finland

**1001-GER**  
Ownership Certificate—Germany

**1001-F**  
Ownership Certificate—France

**1001-G**  
Ownership Certificate—Greece

**1001-IR**  
Ownership Certificate—Ireland

**1001-J**  
Ownership Certificate—Japan

**1001A-J**  
Reduced Rate Certificate—Japan

**1001-L**  
Ownership Certificate—Luxembourg

**1001-N**  
Ownership Certificate—Netherlands

**1001A-N**  
Exemption Certificate—Netherlands

**1001-NA**  
Ownership Certificate—Netherlands Antilles

**1001-NO**  
Ownership Certificate—Norway

**1001-SWED**  
Ownership Certificate—Sweden

**1001-S**  
Ownership Certificate—Switzerland

**1001A-S**  
Exemption or Reduced Rate Certificate—Switzerland

**1001-UK**  
Ownership Certificate—Malawi, Zambia, and Southern Rhodesia

**1001-UK-2**  
Ownership Certificate—United Kingdom

**1099**  
U. S. Information Return

**1099M**  
U. S. Information Return for Regulated Investment Company Distributions

### Stabilization Forms Activity

Number/Title

**S-7**  
Alleged Violation Report

**S-16 (Rev. 2-72)**  
Application for Exemption or Exception

**S-18**  
Notice (of Appeal Rights)

**S-21 (Rev. 4-72)**  
Affidavit

**S-29 (Rev. 2-72)**  
Acknowledgement and Referral Postcard

**S-41**  
Notice of Violation

**S-53**  
Noninstitutional (Individual) Health Services Providers Supplemental Worksheet

**S-55**  
Enforcement Poena

**S-70**  
Lease Notification Addendum

### Public Use Publications Distributed

Publication Number/Title

**S-2**  
General Information, Economic Stabilization Program

**S-3 (Rev. 3-72)**  
Posting Requirements for Retailers

**S-5**  
Price and Wage Classification

**S-6**  
Record Keeping for ESP

**S-3001 (Rev.)**  
Offices Providing Economic Stabilization Information

**S-3004**  
Information for Retailers and Wholesalers

**S-3007 (Rev.)**  
Items Not Controlled by ESP

**S-3008 (Rev.)**  
Enforcement Provisions of ESP

**S-3009**  
IRS Stabilization Rulings Determinations—Appeal Procedures

**S-3010**  
Posting Requirements for Prescription Druggists

**S-3011 (Rev.)**  
Legal Price Increases

**S-3012**  
Construction Industry

**S-3013**  
Retroactive Pay

**S-3015**  
Doctors and Dentists Flyer

**S-3016**  
Wearing Apparel Price Controls

**S-3017**  
Service Organizations

**S-3019**  
Rent Guidelines

**S-3020 (Rev.)**  
How to Compute Productivity Gains

**S-3021**  
Price Controls on Retailers

**S-3022**

Dividends and Interest

**S-3023**Price Controls on Wearing  
Apparel**S-3024**Violations of Economic  
Stabilization Records**S-3025**

Rent Controlled Housing

**S-3026**Rent Violations (Consumer  
Information Series)**S-3029**Executive and Variable  
Compensation**S-3030**

Appeal Procedures, Policy Bodies

**S-3031**Restaurants and Carryouts  
(Consumer Information Series)**S-3033**

Term Limit Pricing

**Supreme Court Decisions****Criminal Cases**

On December 20, 1971, the Supreme Court in *United States v. Bass*, 404 U.S. 336 (1971), in a five to two decision rejected the position taken by the preponderance of the circuits which had considered the issue and held Title VII of the Omnibus Crime Control and Safe Streets Act of 1968 (18 U.S.C. App. § 1202(a)(1)) does not make it a crime for a convicted felon merely to "possess" a firearm. The court said that the statute requires the government to allege and prove in each case involving unlawful "receipt", "possession", or "transportation" that such "receipt", "possession", or "transportation" was "in commerce or affecting commerce". The court came to this conclusion due to the ambiguity of the statute and the lack of conclusive legislative intent and resolved the ambiguity of the criminal statute in favor of the narrower construction taken by the Second Circuit (*United States v. Bass*, 434 F. 2d 1269 (2nd Cir. 1970)).

However, the court pointed out that the nexus with interstate commerce could be established in a number of ways saying "we note only some of these. For example, a person possesses . . . in commerce or affecting commerce if at the time of the offense the gun was moving interstate or on an interstate facility, or if the possession affects commerce. Significantly broader in reach, however, is the offense of receiving in commerce or affecting commerce, for we conclude that the Government meets its burden here if it demonstrates that the firearm received has previously traveled in interstate commerce". However, presumably in the case of a "receipt" charge the person charged with the offense would have to be shown to have received the firearm after the date of enactment of the law (June 19, 1968). Since almost all of the Title VII charges brought prior to the Supreme Court's decision in *Bass* did not allege the

commerce element many cases are being reversed and remanded. See *United States v. Harp*, 454 F. 2d 1161 (5th Cir. 1972); *United States v. Young*, 454 F. 2d 1168 (9th Cir. 1972); and *United States v. Harris*, 456 F. 2d 62 (8th Cir. 1972).

On May 15, 1972 the Supreme Court in *United States v. Biswell*, 406 U.S. 311 (1972) 40 L W 4489, by an eight to one vote, upheld the conviction of a federally licensed firearms dealer who reluctantly permitted inspection of his locked firearms storeroom only after being advised that such inspection was authorized by 18 U.S.C. 923(g) and being shown a copy of the law. The Supreme Court reversed the decision of the Tenth Circuit (*United States v. Biswell*, 442 F. 2d 1189 (10th Cir. 1971)) which had held that *Biswell* did not "consent" to the entry of the locked storeroom, and that if the statute were construed as permitting entry without such "consent" that it violated the Fourth Amendment prohibition against "unreasonable" search and seizures. The Supreme Court did not hold that *Biswell* gave "consent" but rather that there was on his part a "a submission to lawful authority" rather than face a possible criminal prosecution for administrative action with respect to his license).

The court said "in the context of a regulatory inspection system of business premises which is carefully limited in time, place, and scope, the legality of the search depends not on consent but on the authority of a valid statute." The court recognized as to firearms that "close scrutiny of this traffic is undeniably of central importance in federal efforts to prevent violent crime and to assist the states in regulating the firearms traffic within their borders." The court said "large interests are at stake, and inspection is a crucial part of the regulatory scheme, since it assures that weapons are distributed through regular channels and in a traceable manner and makes

possible the prevention of sales to undesirable customers and the detection of the origin of particular firearms". The court explained that in *See v. City of Seattle*, 387 U.S. 541 (1967), they had no occasion to consider the reach of the Fourth Amendment with respect to various federal regulatory statutes.

The court distinguished *Colonade Catering Corp v. United States*, 397 U.S. 72 (1970), a retail liquor dealer case where the statutory authority to enter and inspect was similar to the statutory authority in *Biswell*, on the grounds that there was no forcible entry in *Biswell*. In *Colonade* the court said the statute had not authorized forcible entry. The court said as to federally licensed firearms dealers "if the inspection is to be effective and serve as a credible deterrent, unannounced, even frequent, inspections are essential. In this context, the prerequisite of a warrant could easily frustrate inspection; and if the necessary flexibility as to time, scope and frequency is to be preserved, the protections afforded by a warrant would be negligible." The court also noted that "when a dealer chooses to engage in this pervasively regulated business and to accept a federal license, he does so with the knowledge that his business records, firearms and ammunition will be subject to effective inspection." The court further held that the seizure of the two contraband National Firearms Act weapons discovered in the course of the inspection was not unreasonable under the Fourth Amendment.

In *Kastigar v. United States*, 406 U.S. 441 (1972), the Supreme Court upheld the constitutionality of those portions of the Organized Crime Control Act of 1970, 18 U.S.C. § 6002, empowering the Federal Government to compel testimony from a witness involving the Fifth Amendment by conferring immunity from use of the compelled testimony or use of evidence derived therefrom criminal proceedings are subsequently instituted against such a witness, the Court further held, the Government has the burden of providing affirmatively that evidence proposed to be used is derived from a legitimate source wholly independent of the compelled testimony.

The appellees in *United States v. Marion*, 404 U.S. 307 (1971), claimed that the Government had known of the crimes with which they were charged, the circumstances of the crimes, and appellees' identities for over three years before they were indicted and at their trial successfully moved to dismiss on the ground that the delay in returning the indictment deprived them of their right to a speedy trial as secured by the Sixth Amendment. The Supreme Court reversed the trial court's dismissal and held that " . . . the Sixth Amendment speedy trial provision has no application until the putative defendant in some way becomes an 'accused' . . ." The Court defined "accused," for purposes of the Sixth Amendment, as one against whom there is either a formal indictment or an information, or one who is actually restrained by being arrested or otherwise held to answer a criminal charge. However, the Court stated that "the Due Process Clause of the Fifth Amendment would require dismissal of the indictment if it were shown at trial that the pre-indictment delay . . . caused substantial prejudice to (the accused's) rights to a fair trial and that the delay was an intentional device to gain tactical advantage over the accused."

In *Barker v. Wingo*, 407 U.S. 514 (1972), the Court further clarified the right to a speedy trial by holding that alleged denials of the right can only be determined by an *ad hoc* balancing test rather than by any inflexible time standard. In striking the balance, the Court stated, the factors to be weighed include the length of delay between arrest and trial, justification for the delay, the defendant's assertion of or failure to assert his right to speedy trial, and prejudice to the defendant caused by oppressive pretrial incarceration, impairment of his defense, and pretrial anxiety and obloquy.

## Supreme Court Civil Cases

In *Commissioner v. First Security Bank of Utah*, 405 U.S. 394 (1972), *aff'g* 436 F.2d 1192 (10th Cir. 1971), the Supreme Court disapproved an allocation under section 482 that would have constituted income received in violation of Federal banking laws. The Court, disagreeing with the Commissioner, held that insurance commission income was not partially allocable under section 482 to bank subsidiaries of a holding company that also controlled a management company, an insurance agency, and an insurance company where (pursuant to 12 U.S.C.A. § 92) national banks could not legally receive any proceeds from selling insurance. Here the banks offered to arrange credit life, health, and accident insurance for borrowers who were reinsured through the insurance company subsidiary. All reinsurance premiums were reported in the income of the insurance company which was subject to a lower tax rate than the other corporations. The Court refused to apply the assignment of income doctrine to the banks and stated that the "complete power" to allocate referred to in Treas. Reg. 1.482-1(b)(1) "hardly includes the power to force a subsidiary to violate the law." There were three dissents.

In *Coit v. Green*, 404 U.S. 997, (1971) the Supreme Court affirmed without opinion in December 1971, the June 1971 decision in *Green v. Connally*, 330 F. Supp. 1150 (D. D.C. 1971). In view of the constitutional issue in the complaint filed in May 1969, a three-judge district court was convened. The court enjoined the recognition of any private school in Mississippi as tax exempt under section 501(e)(3) of the Internal Revenue Code unless the school has a racially nondiscriminatory admissions policy. The Service announced in July 1970, that it can no longer legally justify allowing tax-exempt status to private schools which practice racial discrimination nor can it

treat gifts to such schools as charitable deductions for income tax purposes. The Service thought the June 1971 injunction was unnecessary but did not appeal. Direct appeal to the Supreme Court was by interveners representing parents and children who support or attend Mississippi private schools whose enrollment was restricted to white students.

On November 9, 1971, the Supreme Court denied without opinion the motion for leave to file a bill of complaint in *Alabama v. Connally*, 404 U.S. 933 (1971). Alabama, acting through its Governor, claimed original jurisdiction of the Court and sought an injunction restraining the defendants from assessing and collecting federal income taxes from Alabama citizens and from exempting income or religious, charitable, educational and other organizations described in section 501(c)(3) of the Internal Revenue Code. The Government opposed the Alabama motion citing *Florida v. Mellon*, 273 U.S. 12 (1927), which held that a State, as *parens patriae*, cannot represent its citizens in a suit to protect them from unconstitutional inequalities alleged to result from a federal tax law.

On February 23, 1972, the Supreme Court reversed an opinion of the United States Court of Appeals for the Fifth Circuit and held for the Government in an important case involving bad debt deductions. *United States v. Geres*, 405 U.S. 93 (1972). The question resolved was whether the "significant", rather than the "dominant", motivation test is to be applied in determining whether losses resulting from a taxpayer's advances or payments on guarantees of loans to a corporation in which he is a shareholder-employee are "proximately related" to the taxpayer's trade or business. The problem arose where an individual taxpayer bore a dual relationship—as shareholder and also as employee—to the corporation whose default gave rise to the

bad debt loss. The Supreme Court accepted the Government's position that business bad debt treatment is appropriate only where protection of the salaried position is the dominant motivating force and held that where a taxpayer shows only that he was significantly motivated by a desire to protect his salaried position the requisite proximate relationship does not exist. The holding prevents the allowance of a business bad debt deduction where the principal or dominant reason for creating the debt is a nonbusiness reason.

On March 6, 1972, the Supreme Court again reversed an opinion of the United States Court of Appeals for the Fifth Circuit and held for the Government in *United States v. Mississippi Chemical Corp.*, 405 U.S. 298 (1972). The issue was whether amounts paid by farmers' cooperatives for purchases of Class C stock of a regional bank for cooperatives, made in connection with loans secured from the bank, are non-deductible capital outlays rather than deductible interest expenses. The cooperatives were required by the Farm Credit Act of 1955 to make purchases of the stock in amounts constituting a certain percentage of the interest paid to the bank on their loans from the bank. The taxpayers contended that the stock had no value and the amounts paid on the purchase price represented merely additional borrowing costs. The Supreme Court recognized that the Class C stock had characteristics which rendered the market for the shares virtually nonexistent, but nevertheless held that it had substantial value deriving from attributes other than marketability. The Court held its value extended for more than one taxable year, and that it was a capital asset and its cost was nondeductible.

An adverse decision was rendered by the Supreme Court on June 26, 1972, in *United States v. Byrum*, — U.S. — (1972), an estate tax case. The case involved shares of stock in three

corporations controlled by decedent, which shares had been transferred before his death to an irrevocable trust for his children. He retained the right to vote the shares, to veto the sale of any of the shares, and to remove the trustee at will. The issue was whether the shares of stock were includible in his gross estate under *Int. Rev. Code of 1954*, § 2036(a), because he retained either the right to designate the persons who would enjoy the income from the property or the right to enjoy the property himself. The Government's argument, which was rejected by the majority of the court, was based primarily on the decedent's ability to control the flow of corporate dividends to the trust through the exercise of his retained voting control. Justice White's dissenting opinion, joined in by Justice Brennan and Justice Blackmun, suggests that the decision "will open a gaping hole in the estate tax laws."

## Actions of Lower Courts Civil Cases

In *B. Forman Co., Inc. v. Commissioner*, 453 F.2d 1144 (2nd Cir. 1972), the Second Circuit upheld the Commissioner's allocation of imputed interest under section 482 to two corporations each of which owned 50 percent of a third corporation. The court held that "control" under section 482 includes any type of control, direct or indirect, whether legally enforceable, as it is the "reality of control which is decisive, not its form or the mode of its existence." In approving the imputed interest allocation, the Second Circuit criticized certain Tax Court decisions relied upon by taxpayer, including *P.P.G. Industries, Inc.*, 55 T.C. 928 (1970), noting that to the extent those cases would require a different result they do not accord with "either economic reality, or with the declared purpose of section 482."

Distribution of stock of a spun-off corporation to the sole shareholders of the parent corporation was held to constitute a taxable dividend under section 355 where taxpayer's purpose was to put stockholdings in a form facilitating estate planning, there was an absence of any direct benefit to the business of the original company, and the spin-off put saleable assets in the hands of the taxpayers the retention of which was not needed to continue the business enterprise. While reaffirming its holding in *Lewis v. Commissioner*, 176 F.2d 646 (1st Cir. 1949), that a shareholder's personal motives could be considered, the court held that a distribution which had considerable potential for use as a device for distribution of earnings and profits should not qualify for tax-free treatment on the basis of personal motives unless those motives are germane to the continuation of the corporate business. The court found that the purpose here, giving other assets to taxpayer's daughters so as to exclude them from active management of the business, was not a

business purpose. *Rafferty v. Commissioner*, 452 F.2d 767 (1st Cir. 1971).

An important limitation on the right of insurance companies to achieve a wholly tax-free liquidation under section 337 was spelled out in *Buckeye Union Casualty Co. v. Commissioner*, 450 F.2d 109 (6th Cir. 1971). The Sixth Circuit held that the gain realized by an insurance company through retention of 35 percent of its unearned premium reserves on the sale of their insurance business through a reinsurance and assumption agreement was not subject to non-recognition under section 337 because the amount did not result from a sale or exchange but from elimination of the requirement of maintaining reserves. The result, at least in the Tax Court and the Sixth Circuit, is that the "reinsuring" of its risks is now severely limited with respect to use as a liquidation tool by an insurance company.

In *Labay v. Commissioner*, 450 F.2d 445 (5th Cir. 1971), the court affirmed the Tax Court by holding that the new custodial spouse provision of section 152(e), which obliged the custodial spouse to "clearly establish" that he or she provided more support than the non-custodial parent, required such proof only by a "clear preponderance of the evidence" and not the "clear and convincing" standard normally used in testing the Government's burden in fraud cases.

In a case with significant effect on publicly-held corporations, the Tax Court concluded as a matter of law that the accumulated earnings tax can apply to a publicly held corporation where the management is dominated by a single large shareholder or a small group of large shareholders who exercise effective control over the dividend policy of the company or the company represents itself to prospective or existing shareholders as an investment company with the avowed policy of accumulating its invest-



ment income. Having found taxpayer not to be a "mere holding company or investment company," the Tax Court refused to find taxpayer's accumulations unreasonable and subject to the accumulated earnings tax provisions of sections 532(a) and 533(a) for 1962 through 1965, but sustained the Commissioner's determination for 1966. In making its determination for 1966, the court considered the market value of taxpayer's liquid assets, i.e., its stock investments. *Golconda Mining Corp.*, 58 T.C. No. 13 (1972).

After service of a summons by a special agent on the taxpayer's accountant to secure the taxpayer's books and records, the accountant, upon instruction of the taxpayer, delivered the books and records in his possession to the taxpayer's attorney. The taxpayer intervened in the summons enforcement action brought by the Government and asserted as defenses to compliance with the summons that the summons was issued for the improper purpose of conducting a criminal investigation and that the records were encompassed within the taxpayer's Fifth Amendment privilege against self-incrimination. The district court ordered enforcement of the summons and the Fourth Circuit affirmed. The court of appeals held that if a civil purpose existed, as it concluded it did, the summons is proper. As to the privilege argument the court held that the books and records had voluntarily passed from the taxpayer's possession and control and thus from the "sphere of privilege surrounding her" for there was no accountant-client privilege. The taxpayer petitioned for writ of certiorari on January 10, 1972 which was granted on April 3, 1972. *United States v. Lillian Couch*, 449 F.2d 141 (4th Cir. 1971).

In *Clifford Irving, et al. v. Elliott Gray*, — F. Supp. —, (S.D. N.Y. 1972), the Court determined on June 15, 1972, that the procedure employed by the Service in terminating the taxpayers' taxable year under section 6851, notifying them of that termination, and assessing tax liabilities under section 6201 before the normal due date for the 1971 income tax return was proper under the facts and circumstances of the case. The plaintiffs had demanded injunctive relief and a summary judgment. The Government moved to dismiss the complaint on the ground that maintenance of the action was barred under section 7421(a). The court agreed and held that the plaintiffs did not fall under the exceptions to section 7421(a), citing *Enochs v. Williams Packing and Navigation Co.*, 370 U.S. 1 (1962).

In *United States v. First National Bank of Arizona*, 458 F.2d 513 (9th Cir. 1972), the Ninth Circuit affirmed per curiam a district court order granting the Government's motion for summary judgment in this action for failure to honor a levy. After being served with a notice of levy to reach the taxpayer's bank account, the bank set off the account against a debt owed it by the taxpayer, evidenced by a promissory note executed after the tax assessments were made. Prior to the assessments, however, the taxpayer had signed a signature card stating that the account should be governed by the regulations of the bank, which provided that the bank may at any time set off against funds held in any account all debts owed to the bank, whether matured or unmatured, and the promissory note contained a similar set-off provision. Notice of tax lien was not filed until after the date of levy and set-off.

The Government contended on appeal that the case was controlled by the court's previous decision in *Bank of Nevada v. United States*, 251 F.2d 820 (9th Cir. 1957), and that the bank's right to set-off does not qualify as a security interest under Internal Revenue Code of 1954, section 6323. In its opinion, the Ninth Circuit stated only that *Bank of Nevada* requires affirmative.

In *Mike Scarafioti v. Shea*, 456 F.2d 1052 (10th Cir. 1972), the Tenth Circuit Court of Appeals affirmed the district court's order dismissing a mandamus action brought by taxpayer. The prayer for relief was that the court issue an order in the nature of mandamus ordering the special agent to give the taxpayer or his attorney advance notice of any requests for information from third parties concerning his tax investigation of the taxpayer.

The Tenth Circuit held that before mandamus will issue, the duty of the officer involved must be found to be ministerial, plainly defined and peremptory. The court found no clear duty to give notice. The statutes authorizing the use and enforcement of a summons, including 7602 of the 1954 Code, do not require Service agents to give notice to a taxpayer that he intends to talk to a third party about any tax matter relating to the taxpayer.

The court did not accept plaintiff's argument that *Reisman v. Caplin*, 375 U.S. 440 (1964), by implication requires notice to be given before any request or interview of a third party, relying instead on *In re Cole*, 342 F.2d 5 (2nd Cir. 1965) which rejected such an argument.

#### Tax Legislation Enacted

The Revenue Act of 1971 is the most important tax law enacted during the year. The provisions of Title I adopted a job development credit repealed in 1969, and codified the asset depreciation rules (ADR) announced by the Treasury Department in January 1971.

Title II of the Act dealt with personal income tax provisions. The most significant changes involved are an increase in the personal exemption and the standard deduction, and the allowance of certain child care expenses.

Title III of the Act provided structural improvements to the Code. It included amendments such as amortization of certain expenditures for on-the-job training and for child care centers.

Title IV of the Act repealed the Federal excise tax on automobiles and light-duty-trucks.

Title V of the Act enacted tax incentives to spur exports by deferring the export income of domestic international sales corporations (DISC's).

Title VI of the Act provided a special tax credit for employing welfare recipients and made a number of improvements in the existing Work Incentive Program (WIN) for welfare recipients.

Title VII of the Act dealt with a credit or a deduction on an individual's tax return for contributions to candidates for public office.

Title VIII of the Act provided public financing as an alternative way of financing the general election campaigns of presidential and vice presidential candidates.

Congress enacted a number of other public laws relating to tax matters, the most important of which are listed and summarized below:

**Public Law 92-138**, enacted October 14, 1971, and known as "Sugar Act Amendments of

1971," amends and extends the provisions of the Sugar Act of 1948.

**Public Law 92-181**, enacted December 10, 1971, and known as the "Farm Credit Act of 1971", provides for (1) the farmer-owned cooperative system of making credit available to farmers and ranchers and their cooperatives, for rural residences, and to associations and other entities upon which farming operations are dependent, (2) an adequate and flexible flow of money into rural areas, and (3) modernizing and consolidating existing needs.

**Public Law 92-203**, enacted December 18, 1971, and known as the "Alaska Native Land Claims Settlement Act", provides for settlement of certain land claims of Alaska Natives.

**Public Law 92-279**, enacted April 26, 1972, provides complete exclusion from income for compensation paid to members of U.S. Armed Forces and civilian governmental employees while in a "missing status" during the Vietnam conflict.

#### Tax Legislation Pending

Among the tax bills awaiting action by Congress at the end of the year are the following:

**H.R. 25**, to simplify the Internal Revenue Code of 1954 by repealing obsolete and rarely used provisions.

**H. R. 424**, to provide an income tax deduction, in the case of disabled individuals, for transportation expenses to and from work and to provide an extra exemption for a taxpayer or spouse who is disabled.

**H. R. 1467**, to include nationals of the United States within the meaning of "dependent" for tax purposes.

**H. R. 6640**, to provide rules for the application of Secs. 269 and 1551 of the Internal Revenue Code of 1954 to any corporation organized before January 1, 1970, as part of a business expansion program to engage in a separate marketing location not previously served by an affiliated company.

**H. R. 7296**, to permit a governmental unit issuing industrial development bonds to elect to have a \$10 million limit apply to an issue.

**H.R. 10264**, to permit an election by a foreign banking business in U.S. to treat U.S. source interest income as effectively connected income.

**H.R. 10335**, to permit periodic retirement payments made to retired or disabled partner to be excluded for self-employment tax purposes.

**H.R. 10646**, to amend Subpart F provisions to eliminate from the concept of U.S. property certain debt obligations acquired by controlled foreign corporations engaged in the banking business.

**H.R. 11124**, to amend Sec. 103 of the Internal Revenue Code of 1954, relating to interest on state and local governmental obligations, to increase the exemption for small issues.

**H.R. 11184**, to allow an income tax deduction for additions to an account for accrued vacation pay earned by employees.

**H. R. 11197**, to reduce minimum investment return requirements for private foundations.

**H.R. 11200**, to relax exemption requirements for social and membership clubs.

**H.R. 12272**, to establish minimum eligibility and vesting standards for retirement plans and allow deductions to individuals for retirement plan contributions.

H.R. 14370, to establish a "piggyback" system whereby the Internal Revenue Service would take over the collection and administration of state income taxes.

H.R. 14628, to provide for the coordination of United States and Guam individual income taxes.

H.R. 15230, to provide for an orderly and systematic review of virtually all provisions of the Internal Revenue Code of 1954 giving any special exclusion or deduction or special tax rate to any particular type of group or category of income.

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Table 3.—Internal revenue collections by sources, fiscal years 1971 and 1972  
(In thousands of dollars)

Sources of revenue	Fiscal year	
	1971 (1)	1972 (2)
Grand total, all sources	191,647,198	209,855,737
Corporation income taxes, total	30,319,953	34,925,546
Regular	30,313,195	34,916,132
Exempt organization business income tax	6,758	9,414
Individual income and employment taxes, total	140,671,111	152,593,187
Income tax not withheld and self-employment tax <sup>14</sup>	26,209,943	27,710,985
Income tax withheld and old-age and disability insurance, total <sup>14,15</sup>	112,444,889	122,785,357
Railroad retirement, total <sup>16</sup>	1,043,879	1,072,776
Unemployment insurance, employers of 1 or more persons at any time in each of 20 calendar weeks, or paid wages of \$1,500 or more in any calendar quarter, taxed 3.2 percent on taxable portion of wages, effective January 1, 1972	972,409	1,024,069
Estate tax, graduated rates from 3 percent on first \$5,000 of net estate in excess of \$60,000 exemption to 77 percent on portion over \$10,000,000; credit allowed for State death taxes	3,352,641	5,126,522
Gift tax, graduated rates from 2½ percent on first \$5,000 of net gifts in excess of \$30,000 exemption to 57½ percent on portion over \$10,000,000; \$3,000 annual exclusion for each donee	431,642	363,447
Excise taxes, total	16,871,851	16,847,036
Alcohol taxes, total	4,800,482	5,110,001
Distilled spirits taxes, total	3,515,487	3,750,915
Imported (collected by Customs, rates same as domestic)	775,391	761,812
Domestic, \$10.50 per proof gallon or wine gallon when below proof <sup>17</sup>	2,703,540	2,958,725
Rectification, 30 cents per proof gallon	25,001	27,163
Occupational taxes:		
Nonbeverage manufacturers of spirits, \$25, \$50, \$100, per year	53	71
Rectifiers:		
Less than 20,000 proof gallons, \$110 per year	4	4
20,000 proof gallons or more, \$220 per year	16	22
Retail dealers in liquor or medicinal spirits, \$54 per year	10,572	12,116
Wholesale liquor dealers, \$255 per year	503	546
Manufacturers of stills, \$55 per year	5	5
Seizures, penalties, etc.	400	550
Stills or condensers manufactured, \$22 each	2	2
Wines, cordials, etc., taxes, total	177,273	181,223
Imported (collected by Customs, rates same as domestic)	17,259	17,547
Domestic, Still-wines, 17 cents, 67 cents, \$2.25 per wine gallon; sparkling wines, \$3.40; artificially carbonated wines, \$2.40; liquors, cordials, \$1.92 <sup>18</sup>	157,270	160,150
Occupational taxes:		
Retail dealers in wines or in wines and beer, \$54 per year	2,538	3,251
Wholesale dealers in wines or in wines and beer, \$225 per year	206	274
Beer taxes, total	1,107,722	1,167,863
Imported (collected by Customs, rates same as domestic)	6,584	6,539
Domestic, \$9 per barrel of 31 gallons <sup>19</sup>	1,097,657	1,157,745
Occupational taxes:		
Brewers:		
Less than 500 barrels, \$55 per year	1	1
500 barrels or more, \$110 per year	17	13
Retail dealers in beer, \$24 per year (includes limited retail dealers in wines or beer, \$2.20 per month)	2,826	2,873
Wholesale dealers in beer, \$123 per year	638	692
Tobacco taxes, total	2,206,585	2,207,273
Cigarettes, total	2,149,527	2,151,158
Small (Class A), \$4 per thousand	2,149,514	2,151,153
Large (Class B), \$8.40 per thousand, except if over 6½ inches long \$4 per thousand for each 2½ inches or fraction thereof <sup>20</sup>	12	5
Prepayments	1	
Cigars, total	54,775	54,173
Large cigars, total	54,088	52,989
Class A (Retailing at not over 2½ cents each), \$2.50 per thousand <sup>21</sup>	419	493
Class B (Over 2½ cents, not over 4 cents each), \$3 per thousand <sup>21</sup>	1,896	1,822
Class C (Over 4 cents, not over 6 cents each), \$4 per thousand <sup>21</sup>	10,876	10,215
Class D (Over 6 cents, not over 8 cents each), \$7 per thousand <sup>21</sup>	10,357	9,275
Class E (Over 8 cents, not over 15 cents each), \$10 per thousand <sup>21</sup>	21,577	22,585
Class F (Over 15 cents, not over 20 cents each), \$15 per thousand <sup>21</sup>	4,827	4,916
Class G (Over 20 cents each) \$20 per thousand <sup>21</sup>	3,446	3,683
Small cigars, 75 cents per thousand	637	58
Prepayments	50	
Imported cigars, cigarettes, cigarette papers and cigarette tubes, (collected by Customs, rates same as domestic)	765	779
Miscellaneous tobacco	4	10
Cigarette papers and tubes, papers one-half cent per 50, tubes 1 cent per 50	1,513	1,153
Stamp taxes on documents, other instruments, and playing cards, total <sup>22</sup>	68	259

Table 3.—Internal revenue collections by sources, fiscal years 1971 and 1972—Continued  
(In thousands of dollars)

Sources of revenue	Fiscal year	
	1971 (1)	1972 (2)
Manufacturers' excise taxes, total	6,684,799	5,728,657
Gasoline, 4 cents per gallon	3,547,678	3,741,160
Lubricating oil, etc., 6 cents per gallon; cutting oil, 3 cents per gallon <sup>23</sup>	88,185	95,474
Tires (wholly or in part of rubber), inner tubes, and tread rubber:		
Tires, highway type, 10 cents per pound other, 5 cents per pound except laminated tires (other than type used on highway vehicles), 1 cent per pound	541,840	626,401
Inner tubes, 10 cent per pound	23,509	27,053
Tread rubber, 5 cents per pound	28,037	27,866
Motor vehicles, chassis, bodies, parts, and accessories:		
Passenger automobiles, chassis, bodies, etc., 7 percent <sup>24</sup>	1,695,112	563,223
Trucks, and buses, chassis, bodies, etc., 10 percent	525,290	497,138
Parts and accessories for automobiles, trucks, etc., 8 percent	64,078	94,099
Radio and television sets, phonographs, components, etc., 10 percent <sup>25</sup>	129	8
Refrigerators, freezers, air-conditioners, etc., 5 percent; self-contained air-conditioning units, 10 percent <sup>26</sup>	—	—
Electric, gas, and oil appliances, 5 percent <sup>27</sup>	—	—
Pistols and revolvers, 10 percent	7,270	7,563
Phonograph records, 10 percent <sup>28</sup>	—	—
Musical instruments, 10 percent <sup>29</sup>	—	—
Sporting goods (other than fishing rods, creels, etc.), 10 percent <sup>30</sup>	(*)	—
Fishing rods, creels, etc., 10 percent	14,301	13,023
Business and store machines, 10 percent <sup>31</sup>	12	—
Electric light bulbs and tubes, 10 percent <sup>32</sup>	(*)	—
Firearms (other than pistols and revolvers), shells and cartridges, 11 percent	29,444	35,771
Mechanical pencils, pen, 10 percent; lighters, 10 cents per lighter (31 or more) 10 percent (less than 31) <sup>33</sup>	1	(*)
Matches, 2 cents per thousand (but not to exceed 10 percent of selling price); fancy wooden or colored stems, 5½ cents per thousand <sup>34</sup>	(*)	(*)
Retailers' excise taxes, total	282,144	326,833
Noncommercial aviation gasoline, 3 cents per gallon	4,753	8,838
Noncommercial aviation fuel other than gasoline, 7 cents per gallon	10,918	19,381
Diesel and special motor fuels, 4 cents per gallon (in some instances 2 cents per gallon)	266,388	294,608
Luggage, etc., 10 percent	(*)	(*)
Jewelry, etc., 10 percent	154	6
Furs, 10 percent	(*)	(*)
Toilet preparation, 10 percent	—	—
Miscellaneous excise taxes, total	2,487,773	2,694,682
Admissions taxes, total <sup>35</sup>	62	—99
Theaters, concerts, athletic contests, etc.:		
Admissions, 1 cent for each 10 cents or major fraction thereof of the amount paid in excess of \$1	—17	—18
Leases of boxes or seats, 10 percent of the amount for which similar accommodations are sold	—4	(*)
Roof gardens, cabarets, etc., 10 percent of total paid for admissions, services, etc.	83	—81
Club dues and initiation fees, 20 percent (if dues or fees are in excess of \$10 per year) <sup>36</sup>	22	—37
Telephone and teletypewriter exchange services 10 percent; wire and equipment services, 8 percent <sup>37</sup>	1,624,533	1,650,499
Transportation of persons by air, 8 percent (which was increased from 5 percent effective July 1, 1970)	423,082	515,269
Transportation of property by air, 5 percent	21,585	29,455
Use of international air travel facilities, \$3 per person	25,713	42,271
Sugar, approximately half-cent per pound	115,536	115,752
Narcotics and marijuana, total <sup>38</sup>	1,853	466
Narcotics	723	11
Marijuana	1,130	454
Coin-operated amusement devices \$10 per device, per year, bowling alleys, pool tables, etc. \$20 per alley or table, per year <sup>39</sup>	20	19
Coin-operated gaming devices, \$250 per device per year	15,183	14,847
Wagering taxes:		
Occupational tax, \$50 per year	369	348
Wagers, 10 percent of amount wagered	4,572	4,315
Use tax on highway vehicles weighing over 26,000 pounds, \$3 per 1,000 pounds per year (installation privileges granted)	145,058	157,279
Use tax on civil aircraft, \$25 per year with an additional 7 cents per pound on non-turbine engine powered over 2,500 pounds, or 3½ cents per pound on turbine engine powered	17,720	20,375
Adulterate butter and filled cheese (imported and domestic), process or renovated butter and imported oleo margarine <sup>40</sup>	2	4
Firearms transfer and occupational taxes <sup>41</sup>	122	161
Foreign insurance	60,118	71,895
Private foundations	9,579	15,725
Net investment income, 4 percent	24,589	56,045
Self-dealing, disqualified persons, 5 percent; foundation managers (if applicable) lesser of \$10,000 or 2½ percent of amount involved	8	45
Excess business holding, 5 percent	27	51
Taxable expenditures foundation managers (if applicable) lesser of \$5,000 or 2½ percent of amount	1	7
Failure to file certain information returns <sup>42</sup>	(*)	(*)
Assessable penalties with respect to annual reports	(*)	(*)
Unclassified excise taxes	410,000	779,330













**Table 11.—Additional tax and penalties recommended after audit examination by class of tax, and by Internal Revenue regions, districts, and other areas**

(In thousands of dollars)

Region, service center, and district	Total	Individual and fiduciary	Corporation	Estate	Gift	Excise	Employment	Exempt organization
<b>Total</b> .....	<b>3,413,133</b>	<b>1,001,563</b>	<b>1,878,872</b>	<b>390,834</b>	<b>48,149</b>	<b>79,094</b>	<b>60,300</b>	<b>4,321</b>
<b>North-Atlantic</b> .....	<b>705,559</b>	<b>221,183</b>	<b>361,588</b>	<b>96,286</b>	<b>6,549</b>	<b>8,316</b>	<b>10,200</b>	<b>437</b>
Mid-Atlantic.....	487,526	137,360	300,240	29,520	3,350	12,297	4,426	339
Southeast.....	378,867	139,503	186,294	34,646	4,178	4,306	6,276	74
<b>Central</b> .....	<b>400,142</b>	<b>98,022</b>	<b>221,256</b>	<b>56,768</b>	<b>3,832</b>	<b>15,653</b>	<b>4,557</b>	<b>52</b>
Midwest.....	364,119	118,566	359,770	50,672	5,319	9,867	18,044	2,081
Southwest.....	330,148	107,630	191,517	37,523	7,639	10,472	6,888	1,269
<b>Western</b> .....	<b>510,638</b>	<b>171,814</b>	<b>217,621</b>	<b>77,359</b>	<b>17,133</b>	<b>17,522</b>	<b>9,116</b>	<b>73</b>
International Operations.....	39,132	7,486	22,595	8,059	149	59	784	.....
<b>North Atlantic Region:</b>								
Service Center.....	14,230	5,153	5,728	2,484	138	175	550	2
Albany.....	6,761	1,974	1,979	541	48	.....	132	.....
Boston.....	94,824	29,780	44,590	13,851	769	3,950	1,877	7
Brooklyn.....	113,644	74,222	21,662	14,673	870	1,761	456	.....
Buffalo.....	47,673	16,516	19,037	8,291	1,487	225	2,117	.....
Burlington.....	3,773	1,911	953	.....	.....	.....	.....	.....
Hartford.....	94,574	12,469	53,639	26,731	778	585	372	.....
Manhattan.....	307,293	72,696	198,620	27,296	2,313	1,512	4,428	428
Portsmouth.....	6,776	2,324	3,302	940	52	.....	157	.....
Providence.....	16,520	4,140	11,077	1,106	59	.....	81	.....
<b>Mid-Atlantic Region:</b>								
Service Center.....	70,327	30,376	32,301	4,805	236	1,295	1,278	36
Baltimore.....	139,532	34,533	95,737	7,621	163	938	540	.....
Philadelphia.....	36,826	15,826	24,561	6,405	255	2,159	845	13
Pittsburgh.....	67,747	13,748	38,933	4,489	2,127	7,456	492	2
Richmond.....	71,481	18,464	45,621	5,532	286	406	1,159	13
Wilmington.....	7,085	3,413	3,087	668	283	43	122	269
<b>Southeast Region:</b>								
Service Center.....	49,281	16,811	27,308	3,108	252	830	841	31
Atlanta.....	29,106	11,301	14,259	2,779	174	354	.....	.....
Columbia.....	15,899	7,133	5,774	1,182	148	1,132	530	.....
Greensboro.....	60,003	15,325	38,203	4,333	886	.....	.....	.....
Jacksonville.....	23,960	15,219	5,440	2,227	116	332	.....	.....
Nashville.....	131,811	57,204	55,392	13,730	1,905	1,281	2,761	38
<b>Central Region:</b>								
Service Center.....	65,607	16,524	40,068	7,188	415	471	1,136	5
Cincinnati.....	51,041	12,403	31,728	5,133	252	773	736	16
Cleveland.....	103,549	23,028	58,210	8,846	1,230	11,416	1,112	7
Detroit.....	109,629	31,639	65,124	8,000	1,905	1,927	1,005	29
Indianapolis.....	52,407	14,752	46,342	29,496	135	1,217	965	.....
Louisville.....	31,456	11,524	14,263	4,678	138	225	528	.....
Parkerburg.....	12,062	5,075	5,590	917	173	96	211	.....
<b>Midwest Region:</b>								
Service Center.....	2,877	1,346	589	602	112	77	151	.....
Aberdeen.....	267,571	49,139	188,561	19,284	1,884	3,979	3,729	995
Des Moines.....	33,611	6,455	14,588	10,678	636	627	627	(*)
Fargo.....	4,347	1,792	684	989	17	63	782	.....
Milwaukee.....	41,481	10,988	25,838	2,373	142	1,760	379	1
Omaha.....	30,089	8,192	17,661	2,418	352	615	851	(*)
St. Louis.....	101,402	21,602	57,634	7,657	1,274	1,349	10,933	1,003
St. Paul.....	64,852	12,582	47,028	3,498	791	653	222	78
Springfield.....	17,891	6,470	7,177	3,173	161	545	361	4
<b>Southwest Region:</b>								
Service Center.....	10,516	5,251	4,355	663	81	30	126	.....
Albuquerque.....	81,686	24,833	38,753	13,702	1,587	1,330	1,299	153
Austin.....	2,449	1,164	882	259	83	14	47	.....
Dallas.....	77,392	31,836	33,449	7,249	1,291	2,052	1,379	136
Denver.....	29,526	5,546	13,947	3,122	567	5,040	304	(*)
Little Rock.....	16,404	7,452	5,944	1,755	585	231	435	2
New Orleans.....	32,905	13,438	11,048	4,525	2,873	372	649	.....
Oklahoma City.....	53,883	10,920	36,280	3,935	220	1,025	525	978
Wichita.....	26,378	7,190	13,820	2,314	341	578	2,135	.....
<b>Western Region:</b>								
Service Center.....	2,812	1,591	877	66	10	94	174	.....
Anchorage.....	5,237	3,072	1,379	445	58	218	65	.....
Boise.....	7,248	3,399	2,125	1,256	136	181	149	2
Honolulu.....	6,299	3,166	2,452	352	15	109	205	.....
Los Angeles.....	231,875	87,097	96,525	31,036	1,999	9,511	3,706	1
Phoenix.....	22,761	8,653	7,152	2,753	394	3,215	593	.....
Portland.....	27,768	7,375	11,537	2,407	401	721	127	(*)
Reno.....	16,297	4,565	7,489	3,836	70	53	284	.....
Salt Lake City.....	17,698	4,117	6,672	176	29	1,379	323	2
San Francisco.....	151,153	37,663	65,326	30,438	13,848	1,462	2,387	29
Seattle.....	31,491	10,915	16,088	2,594	175	580	1,101	38

\* Less than \$500.

**Table 12.—Appellate Division receipts and dispositions of cases not before the Tax Court (nondocketed cases)**

A. Progress of work

F.Y. 1972

Status	Number of cases	Amount stated in revenue agent's report (thousand dollars)	
		Deficiency and penalty	Overassessment
Received, total.....	(1)	(2)	(3)
Pending July 1.....	27,328	2,616,225	135,518
Received.....	25,333	1,529,700	83,899
Disposed of, total.....	24,250	1,317,596	58,994
By agreement.....	18,877	1,024,903	55,232
Unagreed: (Overassessments, claims, excise, employment, and offer in compromise rejections).....	1,855	24,664	1,070
By taxpayer default on statutory notice.....	901	20,957	61
By petition to the Tax Court—transferred to docketed status.....	2,587	247,472	2,631
Pending June 30.....	23,411	2,827,939	160,423

**B. Results obtained in dispositions**

Method	Number of cases	Appellate determination (thousand dollars)	
		Deficiency and penalty	Overassessment
Disposed of, total.....	(1)	(2)	(3)
Disposed of, total.....	24,250	638,231	65,690
By agreement.....	18,877	357,943	64,329
Unagreed: (Overassessments, claims, excise, employment, and offer in compromise rejections).....	1,855	22,964	1,360
By taxpayer default on statutory notice.....	901	20,321	1
By petition to the Tax Court—transferred to docketed status.....	2,587	237,003	.....

**Table 13.—Appellate Division receipt and disposition of income, estate and gift tax cases petitioned to the Tax Court (docketed cases)**

A. Progress of work

F.Y. 1972

Status	Number of cases	Amount stated in statutory notice (thousand dollars)	
		Deficiency in tax and penalty	Overassessment
Received, total.....	(1)	(2)	(3)
Pending July 1.....	11,163	1,467,403	.....
Received, total.....	8,945	604,629	.....
Petitions filed in response to—			
District Directors' statutory notices.....	6,522	362,525	.....
Appellate Division's statutory notices.....	2,423	242,104	.....
Disposed of, total.....	8,648	468,626	.....
By stipulated agreement.....	6,598	395,187	.....
By dismissal by the Tax Court or taxpayer default.....	1,056	9,507	.....
Tried before the Tax Court on the merits.....	1,094	63,932	.....
Pending June 30.....	11,460	1,603,406	.....

\* Difference from table 12, transferred to docketed status is caused by excluding district directors' statutory notices considered by Appellate in 90-day status.

**Table 13.—Appellate Division receipt and disposition of income, estate and gift tax cases petitioned to the Tax Court (docketed cases)—Continued**

B. Results obtained in dispositions			
Method	Number of cases	Appellate determination (thousand dollars)	
		Deficiency in tax and penalty	Overassessment
	(1)	(2)	(3)
Disposed of, total.....	8,648	187,825	
By stipulated agreement.....	6,538	114,581	
By dismissal by the Tax Court or taxpayer default.....	954	9,312	
Tried before the Tax Court on the merits <sup>1</sup> .....	1,096	63,932	

<sup>1</sup> Represents amounts petitioned.

**Table 14.—Office of Chief Counsel—Processing of income, estate, and gift tax cases in the Tax Court**

Status	Number of cases	Amount in dispute (thousand dollars)		
		Deficiency		Overpayment
		Tax	Penalty	
	(1)	(2)	(3)	(4)
Pending July 1.....	12,183	1,328,697	122,756	143,623
Filed or reopened.....	8,949	520,667	46,341	15,330
Disposed of.....	8,507	372,105	28,526	12,491
Pending June 30.....	12,625	1,477,259	140,571	146,462

<sup>1</sup> Revised.

**Table 15.—Office of Chief Counsel—Receipt and disposal of Tax Court cases in courts of appeals and in Supreme Court**

Status	In courts of appeals				In Supreme Court					
	Number of cases	Amount in dispute (thousand dollars)		Amount approved (thousand dollars)	Number of cases	Amount in dispute (thousand dollars)		Amount approved (thousand dollars)		
		Deficiency and penalty	Overpayment			Deficiency and penalty	Overpayment			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Pending July 1, total.....	503	39,632	254							
Appealed by Commissioner.....	67	13,830	5							
Appealed by taxpayer.....	373	22,120	57							
Appealed by both.....	68	3,682	192							
Appealed, total.....	208	14,651	162			2	399			
By Commissioner.....	49	3,192	7			2	399			
By taxpayer.....	202	9,793	14							
By both.....	17	1,666	141							
Disposed of, total.....	364	30,696	144	26,215	86	2	399			
Favorable to Commissioner.....	206	24,698	57	24,698						
Favorable to taxpayer.....	78	3,204	77		77	2	399			
Modified.....	24	1,227	10		9					
Settled.....	13	726			113					
Dismissed.....	43	841			424					
Pending June 30, total.....	412	23,587	272							
Appealed by Commissioner.....	55	4,723	7							
Appealed by taxpayer.....	317	15,626	17							
Appealed by both.....	40	3,238	248							

<sup>1</sup> Revised.

**Table 16.—Receipt and disposal of refund suits filed by taxpayers in Federal courts**

Status	Total	Refund Suits (other than alcohol, tobacco, and firearms taxes) <sup>1</sup>	
		Court of claims	District courts
	(1)	(2)	(3)
Pending July 1:			
Cases.....	3,457	454	3,013
Amount in dispute..... thousand dollars.....	523,715	210,353	313,362
Received during year:			
Cases.....	1,042	164	878
Amount in dispute..... thousand dollars.....	140,211	63,020	77,191
Disposed during year:			
Cases.....	1,442	150	1,292
Amount in dispute..... thousand dollars.....	134,417	48,788	85,629
Refunded during year:			
Amount..... thousand dollars.....	48,473	14,760	33,713
Percent of amount disposed of.....	36.06	30.25	39.37
Pending June 30:			
Cases.....	3,067	468	2,599
Amount in dispute..... thousand dollars.....	529,509	224,585	304,924

<sup>1</sup> The number of cases disposed of does not agree with the number of cases in which decisions were rendered by these courts during the year, due to settlement by stipulation, dismissals, and time required for retrial, recomputation of tax, etc. In the Court of Claims the number of decisions was 70 of which 16 were for the Government, 51 against the Government, and 3 partly for and partly against the Government. In the district courts 390 decisions were rendered, of which 218 were for the Government, 116 against the Government, and 56 partly for and partly against the Government. For decisions by the courts of appeals and Supreme Court, see Table 17.

**Table 17.—Office of Chief Counsel—Decisions of courts of appeals and Supreme Court in civil tax cases**

Court	Total	For the Government	Against the Government	Partly for and partly against the Government
Total.....	468	301	131	36
By courts of appeals, total.....	463	299	128	36
Originally tried in—				
Tax Court.....	308	206	78	24
District courts.....	155	93	50	12
By Supreme Court, total.....	5	2	3	
Originally tried in—				
Tax Court.....	2	2	1	
District courts.....	3			
Court of Claims.....				

<sup>1</sup> The Courts of Appeals rendered 177 opinions in 308 docket numbers of which 121 opinions were for the Government, 29 opinions were partially for the Government and 36 opinions were against the Government.  
<sup>2</sup> The Supreme Court rendered 1 opinion in 2 docket numbers.

**Table 18.—Office of Chief Counsel—Receipt and disposal of collection, injunction, summons, disclosure cases and erroneous refund suits**

Status	Number of cases
Pending July 1 (1971).....	1,976
Received.....	2,758
Disposed of.....	2,551
Pending June 30 (1972).....	2,143

Note.—This table includes cases handled at national and regional levels which are under consideration for suit or are in suit in Federal and State courts. It does not include cases relating to alcohol, tobacco, and firearms taxes, nor to insolvency and debtor proceedings (Table 19), nor to appeal and other cases which are included in Table 20.

**Table 19.—Office of Chief Counsel—Receipt and disposal of insolvency and debtor proceedings**

Status	Total	Reorganiza-tion proceedings <sup>1</sup>	Bankruptcy and re- ceivership proceedings <sup>2</sup>	Miscella- neous insolvency proceedings <sup>3</sup>
Pending July 1 (1971).....	2,974	1,875	629	470
Received.....	3,651	1,810	1,218	623
Disposed of.....	3,528	1,781	1,178	569
Pending June 30 (1972).....	3,097	1,904	669	524

<sup>1</sup> Proceedings instituted under the following section or chapters of the Bankruptcy Act: Sec. 77 (railroad reorganizations) and chs. X (corporate reorganizations), XI (arrangements as to unsecured indebtedness), XII (real property arrangements), and XIII (wage earners' plans), which involve tax claims and other rights and interests of the United States.  
<sup>2</sup> Bankruptcy liquidation proceedings and Federal or State receivership proceedings which involve tax claims of the United States.  
<sup>3</sup> Proceedings relating to corporate liquidations, insolvent banks, assignments for the benefit of creditors, or administration of estates of decedents, which involve tax claims of the United States.

Note.—Includes cases handled at national and regional levels.

**Table 20.—Office of Chief Counsel—Receipt and disposal of miscellaneous court cases, lien cases not in court, noncourt general litigation cases, and appeal cases**

Status	Total	Miscellaneous court cases <sup>1</sup>	Lien cases not in court <sup>2</sup>	Noncourt general litigation cases <sup>3</sup>	Appeal cases <sup>4</sup>
Pending July 1.....	1,924	428	120	1,191	185
Received.....	7,448	490	2,311	4,271	176
Disposed of.....	7,183	621	2,312	4,123	127
Pending June 30.....	2,189	497	119	1,339	234

<sup>1</sup> Includes suits for foreclosure by mortgagees or other secured creditors, and suits to quiet title to which the United States is made a party.  
<sup>2</sup> Primarily applications for discharge of property from tax liens.  
<sup>3</sup> Primarily memorandums on general litigation matters from regional counsel to district directors which are not related to court proceedings or lien cases.  
<sup>4</sup> Includes cases in Federal and State appellate courts relating to insolvency and debtor proceedings, lien cases in court, and collection, summons, and injunction cases.  
 Note.—Includes cases handled at national and regional levels.

**Table 21.—Office of Chief Counsel—Caseload report**

Activity	Pending July 1	Receipts	Disposals	Pending June 30
<b>Total.....</b>	<b>27,700</b>	<b>38,673</b>	<b>37,104</b>	<b>29,269</b>
Administration.....	124	167	163	128
Alcohol, Tobacco and Firearms.....	1,272	7,559	7,617	1,214
National Office.....	421	2,065	2,158	328
Field.....	851	5,494	5,459	886
General Litigation.....	6,874	13,855	13,300	7,429
National Office.....	474	525	378	621
Field.....	6,361	13,330	12,883	6,808
Enforcement.....	2,467	1,680	1,385	2,762
National Office.....	99	136	82	153
Field.....	2,368	1,544	1,303	2,609
Interpretative Division.....	360	888	778	470
Legislation and Regulations.....	445	205	210	440
Refund Litigation Division.....	3,467	1,042	1,442	3,067
Stabilization.....		4,058	3,336	722
National Office.....		1,941	1,397	544
Field.....		2,117	1,939	178
Tax Court Litigation <sup>1</sup> .....	12,691	9,219	8,873	13,037
National Office.....	508	270	366	412
Trial Branch National Office.....	207	62	16	253
Field.....	11,976	8,887	8,491	12,372

<sup>1</sup> Statutory Notices not included.  
<sup>2</sup> Revised.

**Table 22.—Establishments qualified to engage in the production, distribution, storage, and use of alcohol and alcohol liquors**

Class of establishment	As of June 30	
	1971	1972
	Distilled spirits plants:	
Plants (net number).....	342	1,319
Facilities:		
Production.....	152	148
Warehousing.....	276	275
Bottling in bond.....	56	54
Denaturing.....	51	52
Taxpaid bottling.....	145	143
Rectifying.....	136	132
Denatured and tax-free products (dealers, users, etc.):		
Dealers in specially denatured alcohol and denatured rum.....	42	40
Users of specially denatured alcohol and denatured rum.....	3,008	2,594
Limited users of specially denatured alcohol and denatured rum.....	386	718
Reprocessors, resellers, etc., of specially denatured alcohol articles.....	969	904
Users of tax-free alcohol.....	5,662	5,318
Limited users of tax-free alcohol.....	1,599	1,890
Beer: Breweries.....	148	7147
Wines:		
Bonded wine cellars.....	446	7,464
Taxpaid wine bottling houses.....	57	56
Vinegar: Vinegar factories using vaporizing process.....	3	2
Beverage dealers:		
Importers.....	2,214	2,302
Wholesale dealers in liquors.....	3,718	4,090
Wholesale dealers in beer.....	5,871	5,630
Retail dealers in liquors.....	281,340	213,768
Retail dealers in beer.....	126,506	114,721
Other:		
Manufacturers of non-beverage products (drawback), fruit-flavor concentrate plants.....	765	723
Bottle manufacturers.....	64	62
	125	130

<sup>1</sup> Includes experimental distilled spirits plants.  
<sup>2</sup> Includes experimental brewers.  
<sup>3</sup> Includes experimental bonded wine cellars.

**Table 23.—Establishments qualified to engage in the production or exportation of tobacco products and cigarette papers and tubes**

Class of establishment	As of June 30—	
	1971	1972
	Manufacturers of tobacco products.....	195
Manufacturers of cigarette papers and tubes.....	5	7
Tobacco export warehouse.....	191	203

**Table 24.—Permits relating to distilled spirits under chapter 51, Internal Revenue Code 1954**

Status	Total	Section 5171 I.R. Code	Section 5271, I.R. Code	Users of—							
				Distilled spirits plants	Dealers in specially denatured alcohol	Specially denatured alcohol				Tax-free alcohol	
						REG	LTD	Specially denatured rum	REG	LTD	
											(4)
In effect July 1, 1971.....	10,895	194	42	2,994	386	18	5,662	1,599			
Issued.....	1,005	18	9	240	249	3	118	368			
Terminated, total.....	1,050	16	11	542	31	1	384	65			
Revoked.....	1			1							
Otherwise terminated.....	1,049	16	11	541	31	1	384	65			
In effect June 30, 1972.....	10,850	196	40	2,692	604	20	5,396	1,902			
Amended.....	804	24		257	27	1	428	69			

**Table 25.—Permits for operations relating to alcoholic beverages under the Federal Alcoholic Administration Act**

Status	Grand total	Distilled spirits plants <sup>1</sup>					Wine producers and blenders	Wine blenders	Importers	Wholesalers
		Total <sup>2</sup>	Distillers	Warehousing and bottling	Rectifiers	Wine producers and blenders				
In effect July 1, 1971.....	12,545	336	160	177	155	370	36	2,214	9,589	
Issued.....	1,713	19	9	11	9	51	5	342	1,165	
Terminated, total.....	1,498	34	21	17	14	38	7	254	1,165	
Revoked.....	3								3	
Otherwise terminated.....	1,495	34	21	17	14	38	7	254	1,162	
In effect June 30, 1972.....	12,760	321	148	171	150	383	34	2,302	9,720	
Amended.....	1,504	231				100	4	319	850	

<sup>1</sup> Excludes permits for customs manufacturing bonded warehouses since such establishments are not required to qualify as distilled spirits plants.  
<sup>2</sup> Column (2) does not represent the sum of (3), (4) and (5) since one permit may cover more than one activity.

**Table 26.—Permits relating to tobacco under chapter 52, Internal Revenue Code 1954**

Status	Total	Manufacturers of tobacco products	Export warehouse proprietors
In effect July 1, 1971.....	384	193	191
Issued.....	66	29	37
Terminated, total.....	60	35	25
Revoked.....	1	1	
Otherwise terminated.....	59	34	25
In effect June 30, 1972.....	390	187	203
Amended.....	48	22	26

**Table 27.—Label activity under Federal Alcohol Administration Act**

Type of label	Applications acted upon			
	Total	Certificates issued		Dis-approved
		Approvals	Exemptions	
Grand total.....	59,445	58,312	150	983
Distilled spirits, total.....	19,616	19,233	9	374
Domestic.....	16,192	15,939	9	244
Imported.....	3,424	3,294		130
Wines, total.....	38,089	37,371	141	577
Domestic.....	14,452	14,082	141	229
Imported.....	23,637	23,289		348
Malt beverages, total.....	1,740	1,708		32
Domestic.....	1,254	1,242		12
Imported.....	486	466		20
Letters, total.....	139			
Telegrams, total.....	39			
Form 1649A corrections, total.....	759			

**Table 28.—Internal revenue tax collected on Puerto Rican manufactured products transported to the United States, by object of taxation**

(In thousands of dollars)

Objects of taxation	1971	1972
Total	90,707	104,762
Distilled spirits	80,285	92,999
Distilled spirits rectification tax	63	17
Wine	9	3
Beer	16	10
Cigars, large:		
Class A	(*)	(*)
Class B	6	4
Class C	1,239	1,378
Class D	1,001	965
Class E	6,683	8,665
Class F	1,192	1,247
Class G	213	174
Cigars, small		
Cigarettes, large		
Cigarettes, small		

Note.—Amounts of internal revenue taxes collected on Puerto Rican tobacco and liquor manufacturers transported to the United States, or consumed in the island (less refunds, drawbacks, and expenses), are covered into the Treasury of Puerto Rico under the provisions of secs. 7652(a)(3) and 5314(a) of the Internal Revenue Code of 1954. The gross amounts are included in overall collections results (tables 1 through 4), beginning with 1955.

\* Less than \$500.

† Revised.

**Table 29.—Costs incurred by the Internal Revenue Service**

(In thousands of dollars)

Internal revenue office, district, or region	Total	Personnel compensation	Travel	Equipment	Other <sup>1</sup>
	(1)	(2)	(3)	(4)	(5)
<b>A. National Office and regional totals (including district directors' offices and service centers)</b>					
Total Internal Revenue Service <sup>2</sup>	1,127,390	948,637	34,287	27,189	117,297
National Office	147,883	73,859	2,152	16,047	55,786
North-Atlantic	174,286	157,983	3,946	2,914	9,442
Mid-Atlantic	128,764	118,571	3,213	759	6,222
Southeast	118,363	101,668	4,793	2,457	9,444
Central	117,168	106,503	3,859	895	5,911
Midwest	126,667	113,846	4,351	892	7,578
Southwest	101,709	91,503	3,309	776	5,521
Western	155,792	134,975	6,017	2,269	12,530
Regional Counsel	15,296	14,660	243	8	385
Regional Inspection	14,317	12,759	1,203	71	284
Office of International Operations	6,446	5,666	465		315
National Computer Center	4,937	3,382	51	13	1,511
IRS Data Center	15,742	13,210	85	79	2,368
<b>B. Regional commissioner's offices (excluding district directors' offices and service centers)</b>					
North-Atlantic	17,890	16,288	491	173	932
Mid-Atlantic	16,853	14,962	539	120	1,232
Southeast	21,577	18,506	913	364	1,795
Central	17,043	15,549	468	125	900
Midwest	16,363	13,933	629	151	1,649
Southwest	12,167	10,576	616	121	854
Western	22,518	20,286	892	235	1,104
<b>C. Regional costs undistributed</b>					
North-Atlantic	1,779	558	1,005	14	202
Mid-Atlantic	1,792	907	824		61
Southeast	2,090	907	1,139		44
Central	2,109	961	1,105	37	26
Midwest	2,029	966	993	26	44
Southwest	1,744	297	875	44	27
Western	2,296	796	1,417		83

**Table 29.—Costs incurred by the Internal Revenue Service—Continued**

(In thousands of dollars)

Internal Revenue office, district, or region	Total	Personnel compensation	Travel	Equipment	Other <sup>2</sup>
	(1)	(2)	(3)	(4)	(5)
<b>D. District directors' offices and service centers:</b>					
<b>North Atlantic:</b>					
Albany	4,991	4,644	135	52	159
Augusta	2,579	2,374	105	13	88
Boston	18,835	17,737	372	117	609
Brooklyn	20,226	19,190	288	77	670
Buffalo	12,393	11,743	282	49	319
Burlington	1,346	1,233	55	12	47
Hartford	9,356	8,846	195	53	271
Manhattan	42,254	40,252	431	266	1,305
Portsmouth	2,036	1,876	79	20	61
Providence	3,175	2,962	65	16	132
Puerto Rico Branch (A&I)	170	159	15		3
North-Atlantic Regional Training Center	310	31	3		274
North-Atlantic Region—Centralized Training	161	139			3
Andover Service Center	30,550	27,255	139	207	2,926
Brookhaven Service Center	6,251	2,836	137	1,843	1,434
<b>Mid-Atlantic:</b>					
Baltimore	15,026	14,424	208	45	349
Newark	22,577	21,464	463	118	532
Philadelphia	20,589	19,555	375	119	540
Pittsburgh	11,475	10,948	204	100	227
Richmond	10,210	9,551	349	53	258
Wilmington	2,729	2,558	53	13	104
Mid-Atlantic Regional Training Center	29	9			15
Mid-Atlantic Region—Centralized Training	96		95		1
Philadelphia Service Center	27,389	24,193	104	185	2,907
<b>Southeast:</b>					
Atlanta	11,439	10,374	496	200	369
Birmingham	5,974	5,426	217	91	220
Columbia	4,399	3,989	169	93	166
Greensboro	10,048	9,131	390	136	390
Jackson	3,909	3,494	172	94	149
Jacksonville	18,509	16,621	606	393	888
Nashville	7,764	7,035	279	145	305
Southeast Region: Training Center	33				31
Southeast Region—Centralized Training	126		125		1
Atlanta Service Center	21,794	19,057	89	115	2,042
Memphis Service Center	11,701	7,140	199	822	3,040
<b>Central:</b>					
Cincinnati	11,238	10,627	269	51	292
Cleveland	17,394	16,451	411	97	435
Detroit	21,641	20,166	545	222	708
Indianapolis	11,551	10,738	354	85	374
Louisville	7,284	6,627	263	75	296
Parkerville	4,315	3,894	201	90	130
Central Region: Training Center	221	197	2		12
Central Region—Centralized Training	110		106		4
Cincinnati Service Center	24,261	21,314	112	101	2,734
<b>Midwest:</b>					
Aberdeen	2,063	1,869	115	14	65
Chicago	28,175	26,561	557	132	725
Des Moines	6,708	6,267	232	17	192
Fargo	1,925	1,745	101	4	74
Milwaukee	9,683	8,874	281	177	355
Omaha	4,594	4,168	176	14	145
St. Louis	13,475	12,625	430	46	374
St. Paul	9,605	9,081	264	38	222
Springfield	7,335	6,806	298	16	215
Midwest Regional Training Center	21	1			2
Midwest Region—Centralized Training	140		135		2
Kansas City Service Center	24,636	20,948	135	57	3,496
<b>Southwest:</b>					
Albuquerque	2,746	2,477	132	21	116
Austin	15,830	14,540	499	109	682
Chattanooga	1,547	1,383	109	20	44
Dallas	14,721	13,714	423	81	503
Denver	5,899	5,427	143	46	284
Little Rock	4,153	3,710	137	39	248
New Orleans	8,951	8,277	233	57	294
Oklahoma City	7,162	6,610	249	52	250
Wichita	6,341	5,608	239	66	428
Southwest Region—Centralized Training	189		187		1
Austin Service Center	20,960	18,883	67	121	1,789
<b>Western:</b>					
Anchorage	1,340	1,116	109	20	96
Boise	2,209	1,924	123	38	125
Helena	2,213	1,797	120	30	265
Honolulu	2,391	2,050	83	77	186
Los Angeles	33,184	30,630	884	241	1,299
Phoenix	4,674	4,082	167	93	333
Portland	5,954	5,320	223	39	273
Reno	3,784	3,163	153	47	391
Salt Lake City	2,926	2,654	91	20	160
San Francisco	22,369	20,427	724	192	1,076
Seattle	8,507	7,743	309	102	353
Western Regional Training Center	538	324	4	28	183
Western Region—Centralized Training	191		189		2
Ogden Service Center	27,828	25,312	168	164	2,183
Fresno Service Center	12,990	7,351	223	949	4,467

<sup>1</sup> Includes \$5.9 million financed from reimbursements.

<sup>2</sup> Amounts shown do not include transfer to GSA for rent of space amounting to \$2,202,000.



Table 30.—Obligations Incurred by Internal Revenue Service, by appropriation and activity

Appropriation by activity	Total		Personnel compensation and benefits		Other	
	1971	1972	1971	1972	1971	1972
Total obligations, appropriations, and reimbursable	981,065	1,127,391	848,362	948,628	132,703	178,763
Obligations against appropriation funds	975,725	1,121,511	844,512	943,773	131,213	177,738
Salaries and expenses:						
Total	27,961	31,901	24,533	27,419	3,428	4,482
Executive direction	11,903	13,462	10,653	11,680	1,255	1,802
Internal audit and security	16,058	18,439	13,880	15,739	2,173	2,680
Accounts, collection and taxpayer service:						
Total	409,048	471,623	339,955	377,386	69,093	94,237
Data processing operations	227,655	277,406	180,023	207,735	47,632	69,671
Collection and taxpayer service	171,522	184,849	151,423	161,377	20,099	23,472
Statistical reporting	8,801	8,817	7,443	7,725	1,358	1,092
District manual operations	1,070	551	1,066	549	4	2
Compliance:						
Total	538,716	617,987	480,024	538,968	58,692	79,019
Audit of tax returns	357,137	411,229	322,513	361,947	34,624	49,282
Tax fraud and special investigations	54,365	64,153	46,591	53,014	7,774	11,139
Alcohol, tobacco and firearms	59,440	70,273	49,542	56,565	10,798	13,608
Taxpayer conferences and appeals	29,166	30,914	27,259	28,715	1,507	2,159
Technical rulings and services	14,721	16,171	13,536	15,066	1,185	1,105
Legal services	23,887	25,247	21,483	23,561	2,404	1,686
Reimbursable obligations, total	5,340	5,880	3,850	4,855	1,490	1,025

Note.—Amounts shown do not include transfer to GSA for rent of space amounting to \$948,000 in 1971; \$2,202,000 in 1972.

Table 31.—Quantity and cost statistics for printing

Class of work	Fiscal year 1971			Fiscal year 1972		
	Quantity (thousands)		Cost (thousand dollars)	Quantity (thousands)		Cost (thousand dollars)
	Items or sets	Packages		Items or sets	Packages	
	(1)	(2)	(3)	(4)	(5)	(6)
I. Tax Packages (1970):						
Package 1 (Form 1040, Instructions, Schedules A & B—24 pages)	257,000	51,400	796			
Package 2 (Form 1040 Schedules A & B, D, E & R, and Instructions—40 pages)	157,500	17,500	492			
Package 3 (Form 1040, Schedules A & B, C, D, E & R, Form 4136 and Instructions—56 pages)	158,500	10,570	546			
Package 1065 (Form 1065, Schedule D and Instructions—20 pages)	7,325	1,465	42			
Package 1120 (Form 1120, Schedule D, Forms 1120-W, 3468, 4626 and Instructions for Form 1120 and Schedule D—32 pages)	270,000	2,000	80			
II. Tax Packages (1971):						
Package 1 (Form 1040 Instructions, Schedules A & B—28 pages)				249,700	49,940	966
Package 2 (Form 1040 Schedules A & B, D, E & R, and Instructions—40 pages)				114,525	12,725	433
Package 3 (Form 1040, Schedules A & B, C, D, E & R, Form 4136 and Instructions—56 pages)				157,335	9,255	513
Package 1065 (Form 1065, Schedule D and Instructions—20 pages)				136,000	1,700	70
Package 1120 (Form 1120, Schedule D, Forms 1120-W, 3468, 4626 and Instructions for Form 1120 and Schedule D—32 pages)				220,000	2,000	92
III. Employment Tax Package: Pub. 393 (Forms 7018, 941C, W-2, 941A, W-4, W-4E, Schedule A for W-4, Pub. 213, and unemployment tax schedule)	96,140	5,060	220	91,010	4,790	194
IV. Other Tax Returns, Instructions, Public Use Forms, and Pamphlets—Total	896,465	87,995	2,166	968,570	80,410	2,268
V. Administrative Forms and Pamphlets	1,411,509		9,675	2,374,629		10,208
VI. Field Printing	354,229		1,300	507,618		1,716
VII. Excise Tax Stamps	2,556,612		1,195	2,626,982		1,361
VIII. All Printing to support Phase II of the Economic Stabilization Program				41,219		499
GRAND TOTAL			17,599			19,952

<sup>1</sup> Includes printing for Phase I of the Economic Stabilization Program.

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