

TAXES COLLECTED UNDER NAVAL OIL RESERVE
INVESTIGATION

LETTER FROM THE CHAIRMAN OF THE JOINT COMMITTEE ON
INTERNAL REVENUE TAXATION, TRANSMITTING, IN RESPONSE
TO SENATE RESOLUTION NO. 264, A REPORT RELATING TO
TAXES AND PENALTIES PAID CONSEQUENT UPON DISCLOSURES
BEFORE THE COMMITTEE ON PUBLIC LANDS AND SURVEYS,
UNITED STATES SENATE, PURSUANT TO SENATE RESOLUTION
NO. 101 (SEVENTIETH CONGRESS) ON LEASES UPON NAVAL
OIL RESERVES

JULY 11 (calendar day, JULY 15), 1932.—Ordered to lie on the table and to
be printed

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION,
Washington, July 15, 1932.

The VICE PRESIDENT OF THE UNITED STATES,
Senate Chamber.

SIR: Pursuant to Senate Resolution 264, adopted July 11, 1932, I
have the honor to transmit a report of the Joint Committee on Internal
Revenue Taxation, relating to taxes and penalties paid consequent
upon disclosures before the Committee on Public Lands and Surveys
of the Senate in the course of the investigation by it pursuant to
Senate Resolution 101, Seventieth Congress, first session, and related
matters.

Very respectfully,

J. W. COLLIER, *Chairman.*

REPORT OF THE JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

(Pursuant to S. Res. 264, adopted July 11, 1932)

WASHINGTON, D. C., *July 15, 1932.*

Senate Resolution 264, adopted July 11, 1932, is as follows:

Resolved, That the Joint Committee on Internal Revenue Taxation be, and it
hereby is, requested to secure from the Secretary of the Treasury and submit to
the two Houses of Congress at the earliest practicable time full and complete
information concerning any and all taxes and penalties which have been collected
by or paid into the Treasury consequent upon disclosures made before the Com-
mittee on Public Lands and Surveys of the Senate in the course of the investiga-

tion conducted by it pursuant to Senate Resolution 101, Seventieth Congress, first session, or through inquiries prosecuted incidental to such investigation, including the date of payments, the amount of the same, and the persons making the payments; and likewise, in so far as it may not be incompatible with the public interest, further information concerning any claims or demands be made by the Treasury against any persons or corporations for taxes or penalties over and above such sums as may have been heretofore paid on account of receipt of assets so disclosed and not duly reported for taxation as required by law.

A copy of the resolution was transmitted to the Secretary of the Treasury on July 11, 1932, with a request that the information specified in the resolution be furnished to this committee as soon as possible. The reply of the Secretary of the Treasury, dated July 14, 1932, is as follows:

TREASURY DEPARTMENT,
Washington, July 14, 1932.

DEAR MR. CHAIRMAN: Receipt is acknowledged of your letter dated July 11, 1932, in which you quote Senate Resolution 264, adopted July 11, 1932, requesting your committee to secure from the Secretary of the Treasury and submit to the two Houses of Congress complete information concerning all taxes and penalties which have been collected by or paid into the Treasury consequent upon disclosures made before the Committee on Public Lands and Surveys of the Senate in the course of its investigation under Senate Resolution 101, Seventieth Congress, first session, or through inquiries prosecuted incidental to such investigation, including the date of payments, the amount of the same, and the persons making the payments; and likewise, in so far as it may not be incompatible with the public interests, further information concerning any claims or demands being made by the Treasury against any persons or corporations for taxes and penalties over and above such sums as have been heretofore paid on account of the receipt of assets so disclosed and not duly reported for taxation.

The Senate investigation under Senate Resolution 101 referred to was with respect to leases upon naval oil reserves, and disclosed the operations and distribution of assets (profits) of the Continental Trading Co. (Ltd.), of Canada, during the years 1922 and 1923. A part of the information called for in Senate Resolution 264 was furnished your committee in a letter from the Secretary of the Treasury under date of May 23, 1928, pursuant to a similar resolution (S. Res. 235) adopted May 18, 1928. The information contained in that letter with respect to the tax liability of the Continental Trading Co. (Ltd.) was as follows:

"You are advised that these investigations disclosed that the Continental Trading Co. (Ltd.), of Canada, was liable to the United States for income taxes for the years 1922 and 1923 in the total amount of \$393,653.42. The corporation, having failed to file income tax returns for those years, was held liable also for a penalty of 25 per cent, or \$98,413.36, making a total liability of \$492,066.78, plus interest. Jeopardy assessments were made against the corporation on March 13, 1928.

"The corporation being out of existence, steps were taken to collect the liability from the transferees of the corporate assets, Messrs. James E. O'Neil, Henry M. Blackmer, Harry F. Sinclair, and Robert W. Stewart. On April 25, 1928, the attorney for Mr. O'Neil requested the immediate assessment of one-fourth of the corporate tax liability against his client and on May 9, 1928, he made payment on behalf of Mr. O'Neil in the sum of \$151,305.91, representing one-fourth of the taxes and penalties of the corporation, plus interest to the date of assessment against Mr. O'Neil.

"On May 9, 1928, the attorney for Mr. Blackmer made a payment on behalf of his client in the full amount of \$151,597.10, representing one-fourth of the liability of the corporation for taxes and penalties, plus interest to the date of assessment against Mr. Blackmer. On May 10, 1928, the president and general counsel of the Sinclair Crude Oil Purchasing Co. of Tulsa, Okla., paid on behalf of the Continental Trading Co. (Ltd.), the balance of the latter's liability, amounting to \$246,033.38, plus interest in the sum of \$57,160.80, a total payment of \$303,194.18. The amount thus collected in full satisfaction of the corporation's liability for taxes, penalties, and interest was \$606,097.19."

The communication of May 23, 1928, also advised that a further result of these investigations was the payment from another source of \$1,398,910.09. This sum, representing additional taxes for the years 1921 and 1922, in the total amount of \$1,056,973.49, and interest in the amount of \$341,936.60, was paid

on February 17, 1928, by Mr. Carl H. Pforzheimer, 25 Broad Street, New York, N. Y. The transaction which gave rise to this additional tax liability of Mr. Pforzheimer, was not connected in any way with the operations or distribution of assets of the Continental Trading Co. (Ltd.), but was an unrelated syndicate operation in which Messrs. Pforzheimer, H. M. Blackmer, and H. S. Osler, of Toronto, Canada, were interested. The syndicate profits were distributed in the form of first 3½ per cent Liberty loan bonds and were not reported as income by the individuals named. In tracing the purchase of similar bonds by the New York branch of the Dominion Bank of Canada for the account of the Continental Trading Co. (Ltd.), the investigators for the Senate committee discovered and inquired into the purchase by that bank of these syndicate bonds. Immediately thereafter Mr. Pforzheimer reported to the Treasury his receipt of this income and paid the amount stated above.

In connection with the investigation of the tax liability of Henry M. Blackmer, formerly of Denver, Colo., emergency assessments were made in May, 1928, to prevent the taxpayer from withdrawing his assets from the United States. At the same time criminal indictments charging Mr. Blackmer with tax evasion for the years 1920 to 1923, inclusive, and with perjury in connection with his returns for 1920 and 1921, were returned by the Federal grand jury at Denver, Colo. Tax liens were filed against all of the taxpayer's known assets in this country. The taxpayer appealed to the Board of Tax Appeals from the jeopardy assessments made against him. During 1929 and 1930 practically all of the taxpayer's assets under lien, consisting of stocks and bonds, were converted into cash and paid over to the collector of internal revenue at New York City under protest, pending the final decision of the Board of Tax Appeals. This action was desirable because the assets were rapidly depreciating in value. The total amount so paid over was \$2,589,433.70.

The income-tax case against Mr. Blackmer covered the years 1916 to 1923, inclusive, and included numerous transactions having no relation to the operations of the Continental Trading Co. (Ltd.). The civil liability of Mr. Blackmer was finally disposed of in May, 1932, and resulted in the payment to the Government of \$3,669,784.47. The amount so paid was \$1,080,350.77 in excess of the amount previously paid under protest and was approximately \$844,000 more than the total amount of funds of Mr. Blackmer in this country which the Government had succeeded in impounding.

As to the taxes and penalties asserted for the years 1920 to 1923, inclusive, which years included the Continental Trading Co. transactions as well as a number of other taxable transactions, the taxpayer, in effect, confessed judgment before the Board of Tax Appeals, paying the full amount maintained to be due, amounting to \$1,049,254.17 tax, and \$1,121,530.30 in penalties and interest. It is for these years of 1920-1923 that criminal indictments are pending under which Mr. Blackmer will be prosecuted if he returns to this country.

With respect to Mr. Blackmer's liability for the years 1916, 1917, and 1919, the possibility of recovery by the Government depended upon proving fraud not connected in any way with the Continental Trading Co.'s transactions. In addition to the uncertainty of sustaining fraud for these years, the Government was faced with the contention that even though fraud could be proved, collection for the years 1916 and 1917 was barred by the 3-year statute of limitations contained in the 1916 revenue act. Disposition of the case relating to the years 1916-1919 was accomplished by a compromise under which \$1,500,000 was paid against the finally asserted liability for taxes, penalties, and interest of \$2,626,354.22. The total payment made by Mr. Blackmer in May, 1932, to dispose of his civil liability was, therefore, as follows:

By offer in compromise, 1916 to 1919, inclusive.....	\$1,500,000.00
Under board order, 1920 to 1923, inclusive:	
Total additional tax.....	\$1,049,254.17
Penalties, 50 per cent.....	525,616.30
Interest, 6 per cent.....	274,515.72
Interest, 12 per cent.....	320,396.28
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	2,169,784.47
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	3,669,784.47

The Blackmer investigation led to the investigation of a number of corporations and individuals with respect to transactions having no connection with the Continental Trading Co. (Ltd.) or matters under investigation by the Senate

committee. These investigations have resulted in the collection of additional taxes from 11 individuals in the total amount of \$17,667.71, as follows:

Taxpayer	Address	Net additional tax paid	Date of payment
Andrew D. Aitken.....	Denver, Colo.....	\$319.98	Mar. 4, 1931
H. C. Bretschneider.....	do.....	1,454.81	Feb. 24, 1931
H. H. Brooks.....	do.....	753.57	Mar. 2, 1931
John D. Clark.....	Baltimore, Md.....	5,727.60	Apr. 11, 1930
Ralph O. Dietler.....	Denver, Colo.....	149.37	Mar. 4, 1931
Robert S. Ellison.....	Casper, Wyo.....	1,657.69	Aug. 30, 1930
Paul J. N. Kuhn.....	Scarsdale, N. Y.....	21.58	Oct. 18, 1930
Arthur Myles.....	New York, N. Y.....	1,216.94	Nov. 22, 1930
H. D. Oppenheimer.....	do.....	355.01	Feb. 3, 1931
Walter Pforzheimer.....	do.....	5,332.16	Apr. 23, 1930
James G. Stanley.....	do.....	679.00	Sept. 8, 1930

Interest in the total amount of approximately \$4,000 was paid by these 11 individuals in addition to the amounts shown in the foregoing tabulation.

Additional taxes and penalties aggregating \$1,331,229.63 have been proposed for assessment against other individuals who received assets of the Continental Trading Co. The cases of these individuals are pending before the general counsel for the Bureau of Internal Revenue in connection with protests and briefs which have been filed in opposition to the proposed assessments. These cases are receiving continuous attention and it is anticipated that decisions will be reached at an early date. In the present status of these cases I believe it would not be compatible with the public interests to disclose at this time the detailed facts in connection therewith.

Very truly yours,

OGDEN L. MILLS,
Secretary of the Treasury.

Respectfully submitted.

J. W. COLLIER,
Chairman Joint Committee on Internal Revenue Taxation.

