

# Challenge To Heritage Foundation's Tax Exempt Status

*Labor Party charges that Foundation's slanders are political*

The Baltimore District Office of the Internal Revenue Service began investigating the possible revocation of the Heritage Foundation's tax exempt status July 25, following the filing of a complaint by the U.S. Labor Party. The complaint points out that the foundation's gratuitous circulation of a 24-page slander report against the U.S. Labor Party and its chairman, Lyndon H. LaRouche, Jr., clearly violates Internal Revenue Law. The Heritage Foundation is part of a deployment directed by City of London financiers to prevent the overhauling of the present bankrupt world monetary system along the lines LaRouche proposed in 1975 with his release of the International Development Bank program. To stop the implementation of the European Monetary System proposed by West German Chancellor Helmut Schmidt and French President Giscard, London has launched a full-force anticommunist crusade in defense of what it calls "free enterprise."

Supporters and members of the Heritage Foundation, which purports to be a right-wing research institution and a "last bastion of capitalism" regard it as the "church of free enterprise in the U.S." The foundation's smear campaign against LaRouche and the Labor Party hopes to gull U.S. conservatives into allowing the country to be looted via depression-triggering deflation tricks associated with Federal Reserve Chairman G. William Miller and Schactian economist Milton Friedman.

By legal definition the Heritage Foundation's role in circulating the slander that the Labor Party is a terrorist organization reclassifies the organization from a foundation into an "action organization," which is not eligible for a tax exemption. The slander report was authored for Heritage Foundation publication by Francis M. Watson, head of the Rockford College Institute, a little-known Midwestern think tank.

While the IRS conducts its investigation, the Labor Party has learned that the report is still being circulated to political and public spokesmen who have not solicited it.

The Heritage Foundation's activities fall within the broader initiative code-named "Operation Conservative" which aims to prevent U.S. business and industry leaders from recognizing the Labor Party's role in creating the global economic revitalization program agreed on by the leaders of advanced nations at key summit meetings in Bremen and Bonn, West Germany this month.

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## The Complaint

*The U.S. Labor Party informed the District Director of the Internal Revenue Service in Baltimore of the Heritage Foundations' activities in the following complaint on July 25.*

The Heritage Foundation, which has its office at 513 C Street, N.E., Washington, D.C., is classified as a Section 501 (c) (3) tax exempt organization under the Internal Revenue Code of 1954. We have been advised by our tax counsel that organizations which engage in political

activities and-or campaigns which seek to discredit particular individuals and institutions on the basis of unsupported opinions and incomplete information relating thereto, are subject to review and possible revocation of their Section 501 (c) (3) tax exemption.

For the reasons and authorities that follow, we respectfully request that an investigation be made by your office with regard to possible revocation of the tax exempt status of the Heritage Foundation.

The U.S. Labor Party (USLP) is an electoral party headquartered in New York, New York, which is duly registered with the Federal Elections Commission. In the 1976 Presidential election, the USLP presidential

candidate, Lyndon H. LaRouche, Jr., was on the ballot in 26 states. Mr. LaRouche has recently toured the United States, preparatory to launching a formal candidacy for the 1980 presidential election.

During this tour, it has come to our attention that the enclosed document, published under the letterhead of the Heritage Foundation, has been gratuitously and without solicitation circulated by such foundation to various persons and organizations in business, press and politics. We are in the process of preparing a list of the recipients of this document, as known to us, and we will be prepared to discuss this information once we have fully confirmed all details.

We have received further reports from individuals and organizations receiving this document, which indicate that Mr. Francis M. Watson, the author of the document, has contacted some of the individuals and organizations by telephone, on behalf of the Heritage Foundation and the Rockford College Institute, urging them not to associate politically or otherwise with Mr. LaRouche or the U.S. Labor Party. We are available to discuss this matter as well, which we are currently investigating.

We have been further informed by our tax counsel that the above activities of the Heritage Foundation violate

the proscription against political campaign activity contained in Section 501 (c) (3) of the Internal Revenue Code. As further authority, we refer to the case of *Christian Echoes National Ministry, Inc. vs. United States*, 73-1 USTC, Paragraph 9129 (U.S. Court of Appeals, 10th Circuit, 1972), and to Revenue Ruling 68-263 (1968-1 CB 256).

We respectfully urge the District Director to act forthwith to stop the Heritage Foundation's attempt to exploit and abuse their tax exempt status through publication of overtly political materials under the guise of "research."

## The Legal Case Against The Heritage Foundation

*Here is a portion of the Internal Revenue code section 501 C (3).*

"An organization is an 'action' organization if it participates or intervenes, directly, or indirectly, in any political campaign on behalf of or in opposition to any candidate for public office. The term

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## Who's Who In The Heritage Foundation

### Board of Trustees

#### **Ben B. Blackburn, Chairman**

Member, House of Representatives 1967-75 from Atlanta, Ga.; president, Southeastern Legal Foundation in Atlanta, affiliated with the National Legal Center for the Public Interest.

#### **Joseph Coors**

President of Adolph Coors Company; Board of Overseers at the Hoover Institution at Stanford University; principal contributor to the Heritage Foundation.

#### **Thomas C. Ellick**

Vice-president of corporate relations for the Fluor Corporation; member, National Association of Manufacturers Public Affairs Committee.

#### **Edwin J. Feulner, Jr.**

President, Heritage Foundation; former Senior Staff Aide in U.S. House of Representatives for 10 years; personal staff member of Melvin Laird.

#### **J. Robert Fluor**

Chairman, President and chief executive officer of Fluor Corporation, headquartered in Houston with a subsidiary in Toronto; Chairman of the Board of Trustees of the University of Southern California.

#### **J.F. (Fritz) Rensch**

President, Racine Industrial Plant, Inc.; member, Young President's Organization.

#### **William E. Simon**

Former U.S. Secretary of the Treasury.

#### **Frank J. Walton**

Former president, Heritage Foundation; served as Secretary of Business and Transportation for State of California under Governor Reagan.

#### **Jack O. Wilson**

Assistant to the president, Adolph Coors Company; former president of Television News, Inc.

### Policy Review Editorial Board

#### **Edwin J. Feulner, Publisher**

President, Heritage Foundation; attended London School of Economics; member of International Institute for Strategic Studies (IISS), London; member, Mont Pelerin Society.

#### **Robert L. Scheuttiner**

Director of Studies, Heritage Foundation; attended Columbia, Oxford, University of Chicago; taught at St. Andrews in Scotland; member London IISS; member, Mont Pelerin Society; attended 1976 Mont Pelerin conference with Otto von Hapsburg, Karl Popper, J. Enoch Powell and others who visit Adam Smith's grave in Scotland.

'candidate' for office means an individual who offers himself, or is proposed by others, as a contestant for an elective public office, whether such office be national, state or local. Activities which constitute participation or intervention into a political campaign on behalf of or in opposition to a candidate include, but are not limited to, the publication or distribution of written or printed statements or the making of oral statements on behalf of or in opposition to such a candidate."

#### *Legal Precedent*

In 1972, the IRS law for rescinding the tax exempt status of a foundation was tested in *Christian Echoes National Ministry, Inc. v. U.S.* In that case, evangelist Dr. Billy James Hargus maintained his slanderous attacks against individuals and groups were simply an exercise of his "First Amendment rights." Not so, said the Court, whose findings stated: "In light of the fact that tax exemption is a privilege, a matter of grace rather than right, we hold that the limitations contained in Section 501 (c) (3) withholding exemption..do not deprive Christian Echoes of its constitutionally

guaranteed right of free speech. The taxpayer may engage in all such activities without restraint, subject however, to withholding the exemption or, in the alternative the taxpayer may refrain from such activities and obtain the privilege of exemption . . . government shall not subsidize, directly or indirectly those organizations whose substantial activities are directed toward the accomplishment of legislative goals or the election or defeat of particular candidates."

The Court found that although Christian Echoes "generally did not formally endorse specific candidates for office, it used its publications and broadcasts to attack candidates and incumbents who were considered too liberal."

Christian Echoes and Hargus not only lost their tax exempt status, but lost it *retroactively*. Not only was the organization found liable for tax payments from the time it began its active political denunciations of certain candidates and spokesmen, but so were its *contributors*.

Current contributors to the Heritage Foundation run the same risk, as the foundation could also lose its tax exempt status retroactively, that is from the time its activities made it an "action organization."

#### **David Israel Meiselam, Chairman of Editorial Board**

Member, Royal Economic Society; member, Mont Pelerin Society; Chairman of Presidential Task Force on Inflation, 1968-69; Senior economist, OAS Inter-American Development Bank Fiscal Mission to Peru, 1964.

#### **Kingsley Amis**

Fellow of Poterhouse, Cambridge, 1961-63; British novelist and frequent contributor to the *New Statesman* and *The Spectator*.

#### **George F. Gilder**

Fellow at Kennedy Institute of Politics; staff aide to Jacob Javits and Charles Mathias; managing editor of *The New Leader*; formerly editor of *The Ripon Quarterly*.

#### **Stephen Haseler**

Member, British Fabian Society; former Labour Party ranking member of the Greater London County Council; principal lecturer in politics at City of London College.

#### **Harold M. Hochman**

Research Director for International Center for Economic Policy.

#### **Herman Kahn**

Director of Hudson Institute; member, Council on Foreign Relations.

#### **Henry G. Manne**

Board of Directors, Foundation for Economic Education, one of the original free enterprise think tanks; member, Mont Pelerin Society; Director, Law and Economics Center, University of Miami, Florida.

#### **Allan H. Meltzer**

Maurice Falk Professor of Economics and Social Science, Carnegie-Mellon University Graduate School of Industrial Administration.

#### **Robert Moss**

Editor, Evelyn de Rothschild's *Foreign Reports*, the confidential intelligence weekly of *The Economist*; member of IISS, London.

#### **John O'Sullivan**

Editorial writer for London's *Daily Telegraph*.

#### **Roger Pearson**

President, Council on American Affairs and general editor of its *Journal on Social and Political Studies*; editor, *The Journal of International Relations*; race scientist; heads American branch of World Anti-Communist League and sponsored this group's last world conference in Washington, D.C.; claims U.S. is "just an outpost of the Empire."

#### **William Schneider**

Member, IISS, London; staff member, U.S. Congress; Research Fellow, Hudson Institute.

#### **Gordon Tullock**

Editorial director of the Center for Public Choice.

#### **Ernest Van Den Haag**

Taught at New School for Social Research; member, Mont Pelerin Society; founding and contributing editor of *National Review*; author, *The Jewish Mystique*.