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DISPATCH		CLASSIFICATION SECRET	PROCESSING UNIT FIVE (1) OF TWO
TO Chief of Station, Mexico City			IS BEING FORWARDED
FROM Chief, [redacted]			COPIES OF THIS DISPATCH
DATE 12/1/55			REFUSE

ATTORNEY GENERAL'S COMMENTS

1. The information provided in reference B can only be reaffirmed, as the fact has not changed on this particular aspect since 1953. It would be the best source of compensation to an individual, whether he is an employe of an independent contractor, the compensation is taxable. Attached is Internal Revenue Code Section 911.

2. If after reading Section 911 of the Code [redacted] believes that his annual income from the Corporation should not be taxable, it is suggested that one of the following procedures be used to provide satisfaction to him:

A. That the Station authorize the issuance of an **OPINION** from 1059 (Statement of Income) for the year 1954. This would allow us to turn over the documentation directly to Internal Revenue and the question then could be handled between Internal Revenue and [redacted] without coming to the attention of the [redacted]. The issuance of [redacted] the [redacted] is not a particularly serious cover problem, since a man in his field could easily be approached by [redacted] to contact a research project for them.

B. Attached is a revised 1954 covert tax return which [redacted] could submit to Internal Revenue, through the Government. This return would be processed by Headquarters and forwarded to the IRS Court Unit, who would audit the return. The chances are excellent that they would require an audit letter and request payment of tax on the [redacted] [redacted] income. At this point [redacted] could prepare and forward to Headquarters his statement on why he considers the income excludable and follow normal procedures to contact the case. This procedure requires [redacted] to act as the intermediary handling all the resulting correspondence.

Neither of the above procedures will provide him with the same opportunities to contact a Revenue finding as any other taxpayer; however, the [redacted] suggestion (B) will require considerable effort on the part of [redacted].

Whiff-201

CASE REFERENCE TO EIS-4674		DISPATCH SYMBOL AND NUMBER SECRET	DATE 1 April 1955
CLASSIFICATION SECRET		NO FILE NUMBER	
OFFICE		ORIGINATOR	
CC3/IC	FOUNTLE	FOUNTLE	FOUNTLE
OFFICE SYMBOL		OFFICE SYMBOL	
W1/1/Kax	4/1/55		
W1/Pers	4/1/55		
OP/CEO		Tel. coord. by [redacted]	
OFFICE SYMBOL		OFFICE SYMBOL	
C/W/53			

2/ps

3. During the review of Case Section 911, please note the wording used in the paragraph on the limitations on the amount of the contribution. The (b)(3)(C)(i) limitation is for an individual who qualifies as a bona fide resident for such purposes solely under Section 911 (a) (1). This is, in our opinion, "residence" limited to areas outside the United States (such as areas held by the United States or by agency thereof). The (b)(3)(C)(ii) limitation is for individuals earned income only and does not include non-qualifying earned income from sources (interest, dividends, etc.).

4. Since this involves a 1974 tax return, it is suggested that the dates be made as close as possible to those, as you note in paragraph one of reference 4, inherent in operating.

5. If we can be of any further assistance, please advise.

vdc
VICTOR D. UHNEY

Distribution:
Orig. & 1 - 003 (v/ats)
1 - 11/Pers