

Intelligence Unit
Bureau of Internal Revenue
Treasury Department

Organization, Functions and Activities

A Narrative Briefly Descriptive
Of the Period 1919 to 1936

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The group of agents detailed to this work included many of the best men in the service. The course of the investigation into the hidden sources of income of the "big fellows" was a tortuous trail through the crooked ramifications of underworld intrigue.

Let us note some of the results.

Al Capone - Public Enemy No. 1
Vicious Crime Organization Revealed

Chicago had gained an international reputation from 1924 to 1930 because of organized lawlessness. Gang killings were a frequent occurrence. The most notorious leader of organized crime in that city and in the nation was Al Capone, known as "Scarface Al", and termed by the newspapers as Public Enemy No. 1 of the United States. There is no doubt that he was the most vicious and dangerous racketeer in the history of this country. His reign as vice overlord began in 1924, when he succeeded Johnny Torrio, and continued up to the time of his conviction on the charge of evading income taxes, October 17, 1931.

Johnny Torrio had come to Chicago from New York during the early days of prohibition to succeed the murdered Jim Colosimo, who was among the first of the notorious racketeers of the early prohibition era. Torrio had considerable executive ability and was skilled in the ways of the underworld. He had seized the chance to gain power and wealth by organizing Chicago vice, liquor and gambling interests. He dominated not only the first ward controlled by Colosimo, but held lawless sway throughout the city. He made the most of his opportunity, and with considerable financial success. In 1924 Torrio became the target of a spray of bullets. Although badly wounded, he recovered and promptly quit Chicago.

Capone then came into power. Immediately upon his succession to the throne of gangdom in Chicago, there was a series of gang wars. Rival factions sought to displace his control of underworld activities. There were 16 murders from gang casualties in 1924. Wars between gangs continued until 1929. The murder record rose to 64 in one year.

Capone thus established and maintained his place as recognized mob leader. His organization was acknowledged as

being so highly effective in obtaining results that on one occasion he was called in by the Chicago newspapers to settle a strike of their employees.

Capone's income was enormous. Investigation disclosed that he had failed to report large profits from gambling, bootlegging and various forms of racketeering. When the Special Agents finally finished their investigation and built up a great mass of evidence, the Government was ready to make its first public revelations of Capone and his crime organization.

Capone was brought to trial at Chicago in October, 1931. The trial was publicized internationally, representatives of foreign newspapers and many national newspapers being in attendance. Upon conviction he was sentenced to ten years in the Federal penitentiary and one year in the Cook County jail, to be served at the completion of the prior sentence, and was fined \$50,000. The conviction was appealed to the Circuit Court of Appeals and to the United States Supreme Court but the trial court was sustained.

Capone's Henchmen Rounded Up

The work of the Intelligence Unit at Chicago in bringing income tax evaders to justice was not confined merely to the Capone case. The investigation reached far into the secret recesses of other reigning gangsters. Finally, the round-up included the principal lieutenants in his organization and outstanding rival gangsters.

Some of the most active members of Capone's organization, known as his "inner council", were Al Capone's brother, Ralph Capone, who was his principal lieutenant; Frank Nitto, Chief Executioner and Treasurer; Jack Guzik, Business Manager; Philip D'Andrea, Bodyguard; Murry L. Humphries, who specialized in the business rackets; also Ted Newbury, Rocco and Nick De Grazia, other principal lieutenants. The most notorious of the rival gangsters were Terry Druggan and Frank Lake.

Most of the tax evaders investigated in Chicago during the intensive drive were primarily engaged in different kinds of illegal business. They kept little or no records. They had no bank accounts in their own names.

Because of the nature of their activities, it was an exceedingly difficult task to secure the proper evidence to convict them in court of evasion of income taxes. Persons having knowledge of their financial transactions were extremely reluctant witnesses because of fear they or their families would be killed.

The Capone organization had operated in various illegal business ventures for several years apparently without serious interference by local or Federal authorities. The organization was so powerful that it was almost impossible to find witnesses to testify against them.

During the course of the trial of Al Capone, he was accompanied back and forth between the Federal Building and the Lexington Hotel by Philip D'Andrea, an ostensible personal bodyguard. D'Andrea sat immediately behind the defendant in the court room. Since Capone was being escorted by squads of police, it appeared that D'Andrea was serving in some capacity other than that of a bodyguard.

It seemed clear to the Special Agents that he was present at the trial to intimidate Government witnesses as they took the stand and to bolster up the courage of defense witnesses.

On the first day of the trial, Judge Wilkerson ordered that no firearms be carried into the court room. Immediately before one of the noon recesses during the trial, D'Andrea was called from the court room by Special Agents and escorted into an anteroom. He was searched and a fully loaded 38-caliber revolver was found concealed inside his belt. In a vest pocket he carried a supply of extra cartridges. A warrant was issued for his arrest charging contempt of court and he was placed in jail pending disposition of the Capone case. Later, he entered a plea of guilty and was sentenced to six months in jail.

Judge Wilkerson Excoriates Gangsters

In sentencing D'Andrea, United States District Judge Wilkerson stated:

"The respondent claims that he did not know what this band was doing but his under-

"standing was that they are engaged in gambling and bootlegging.

"It is perfectly clear from a long array of conclusive circumstances that this band exercised a coercive influence over those with whom it comes in contact which is nothing less than insurrection against the laws of the United States.

"The court would have been blind, indeed, if it had not observed the intimidation practiced on the witnesses almost under the eyes of the court.

"It must be borne in mind that this respondent was sitting with his concealed firearms behind the defendant (Capone), while the defendant was glaring at witnesses who were on the point of remembering something about the business in which the defendant was engaged, and which the witnesses could not possibly have forgotten, yet witnesses faltered and failed at the critical point.

"To this camp at the Lexington (Hotel) were summoned the witnesses who testified to the defendant Capone's losses on horse races. At that camp were summoned counsel for conferences and from that camp under what coercive influence we can only conjecture from what transpired in court, came that array of shocking perjury with which the court was confronted during the closing days of the trial.

"We had here the spectacle of witness after witness testifying in a way which was psychologically impossible, pretending to remember things which, in the very nature of the human mind, the witness could not have remembered if he had forgotten the things which he pretends to have forgotten. It was perjury on its face. The activities of this band were a menace to the court and its officers to the due administration of justice."

Capone's Conviction, Applauded by Press,
Prompts Large Payments From Delinquents

Thus, we have a portrayal, in a very general way, of conditions as they existed in Chicago, when the Intelligence Unit began its investigation of the various members of the Capone syndicate.

The conviction of Al Capone brought favorable comment in the press. Newspapers, in their stories and editorials, highly commended the work of the Intelligence Unit. Editorial expression throughout the nation applauded the conviction and appealed for complete suppression of gangsters. An aroused public opinion was quickly manifested.

This conviction, press observers said, did more than anything else, to provide the inspiration which induced law enforcement agencies, both local and Federal, throughout the nation, to institute drives against organized crime.

The indirect results of the Capone prosecution were most beneficial. Many delinquent taxpayers, including those engaged in legitimate business, as well as individuals in illegal activities, immediately filed delinquent returns at the office of the Collector of Internal Revenue as the result of the Chicago drive.

It is worthy of note that an increase of \$1,136,588 in the collections from delinquent returns in 1931 over 1930, was reported by the Collector of Internal Revenue for the Chicago District. This sum was more than double the amount collected from that source in the preceding year.

Early in 1931, a "big-shot" gambler called at the office of the Collector of Internal Revenue at Chicago and stated that, "knowing what was being done to others" engaged in underworld activities, he feared he would be prosecuted himself. He volunteered to cooperate in the investigation of his transactions. At the end of the investigation the gambler paid the Government \$200,000 in cash.

A somewhat similar experience was recorded with another individual engaged in illegal activities. Upon the conclusion of the investigation of his case, the Treasury received approximately \$238,000. Numerous other instances of this character could be cited.

Racketeers under investigation by the Intelligence Unit have endeavored to avoid criminal responsibility by offering to pay taxes and penalties with interest and frequently an additional amount in lieu of criminal prosecution. The policy of the Bureau of Internal Revenue has been that in those cases in which the evidence is deemed sufficient, criminal prosecution shall be instituted.

Steps are taken also to safeguard the Government's interests with respect to the collection of the civil liability by filing liens where necessary. It is the practice during an investigation to keep in mind the ultimate collectibility of the tax as well as the criminal procedure.

**Drive On New York Racketeers Nets 47
Indictments Of Bootleggers, Gamblers,
Officials, Lottery Operators**

After the successful conclusion of the investigations in Chicago, the Intelligence Unit, in the early part of 1931, instituted an intensive drive against racketeers in New York City, who were evading income taxes on illegal gains.

Preliminary inquiry resulted in investigations of approximately 250 individuals and several corporations.

Originally the drive was intended to cover only racketeers who were preying on legitimate business. As it progressed, it was extended to cover alleged corrupt officials in New York City. The irregularities of these officials were being discovered through the activities of the Seabury Committee, which at that time was making an extensive investigation of public officials.

Several of the most notorious bootleggers, gamblers, operators of lottery games and public officials in New York City were indicted and convicted of the charge of evading taxes.

Forty-seven indictments were obtained as the result of the drive. Additional taxes and penalties were recommended for assessment in the total amount of \$5,683,706.17 in this group of cases.