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INTERNAL REVENUE
JUN 10 1939
INTELLIGENCE UNIT

Report Examined, Approved and
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Chas. O'BBerry
Special Agent in Charge,
Kansas City Division.

TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

INTELLIGENCE UNIT
KANSAS CITY
(Name of Division)
SI-15246-F
RHH-b

St. Louis, Missouri,
June 6, 1939.

Chief, Intelligence Unit,
Bureau of Internal Revenue
Washington, D. C.

In re: Thomas J. Pendergast,
5650 Ward Parkway,
Kansas City, Missouri.

This report is submitted for transmittal to the Warden of the United States Penitentiary at Leavenworth, Kansas, upon his request therefor, relative to the conviction of Thomas J. Pendergast, charged with evasion of income taxes and now serving sentence in that institution.

Mr. Pendergast Subject was indicted April 7, 1939 at Kansas City, Missouri on two counts, charged with evasion of income taxes for the years 1935 and 1936. He surrendered the same day and was released on \$10,000.00 bond. The bond was at first set as returnable on April 24, 1939, but was later continued to May 1, 1939. On April 27, 1939 a superseding indictment was filed against him, charging him with the same offense for the years 1935 and 1936, but including additional income not reported for those years. He was arraigned before Federal Judge Merrill E. Otis on May 1, 1939 and entered a plea of not guilty to both indictments. Judge Otis set the trial as of June 12, 1939. On May 22, 1939 Pendergast at his own instance and

request appeared before Judge Otis and changed his plea to guilty to both counts of the second indictment, the first indictment being dismissed. He was sentenced to one year and three months in the custody of the Attorney-General on the first count and to three years in the custody of the Attorney-General and fined \$10,000.00 on the second count but the prison sentence on the second count was suspended, the defendant being placed on probation for five years, probation to start after the sentence on the first count had been served. Admission to probation was made conditional on the payment of the \$10,000.00 fine; his obedience to all laws; payment of income taxes for the years 1935 and 1936, unless financially unable to do so and his reporting to the probation officer on stated intervals. He was granted a stay of execution for one week and entered Leavenworth Penitentiary on May 29, 1939.

Subject filed income tax returns for the years 1935 and 1936, but failed to report income received by him in the compromise settlement

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of fire insurance rate litigation; from dividends on corporate stocks owned by him and from salaries received by him. For several years prior to 1935, the fire insurance companies and the state of Missouri had been in litigation over what the state claimed were excess premiums charged and collected by the companies. Pending settlement of the litigation, the excess premiums were ordered impounded in the courts. During 1935, Pendergast in a conference with Charles R. Street, Chicago, Illinois, representative and agent of the fire insurance companies, suggested to the latter that he would be able to bring the long-drawn out litigation to a satisfactory conclusion by using his influence on state officials. Mr. Street offered to pay Mr. Pendergast \$500,000.00, which he later increased to \$750,000.00 if the latter could bring about a settlement. Due to the latter's influence a compromise settlement was effected in May, 1935, and finally approved by the Federal Court on February 1, 1936. During the year 1935, Mr. Street sent \$100,000.00 in currency to Pendergast, through A. L. McCormack, St. Louis. Pendergast retained \$55,000.00 and gave Mr. McCormack \$22,500.00 to retain for his own use and \$22,500.00 to give to R. E. O'Malley, who was superintendent of Insurance of the State of Missouri at that time. During 1936, Mr. Street sent \$340,000.00 in currency to Mr. Pendergast through Mr. McCormack, Mr. Pendergast retaining \$260,000.00 and giving Mr. McCormack \$40,000.00 to retain for his own use and \$40,000.00 to give to Mr. O'Malley. Mr. Pendergast did not report the \$55,000.00 received in 1935, nor the \$260,000.00 received in 1936. Due to Mr. Street's death on February 1, 1938, no further payments were made to Mr. Pendergast, pursuant to the second offer.

Mr. Pendergast also owned considerable stock in several corporations, but the stock certificates were recorded in the names of Edward L. Schneider and E. H. Matheus. Dividends paid on these stocks were delivered by the stockholders of record to Mr. Pendergast, but were not reported by him as income. Instead the stockholders of record, whose net incomes were in the lower surtax brackets reported the dividends as income, thereby allowing Mr. Pendergast

to evade a large amount each year in income taxes. In addition, salaries recorded on the corporation books as having been paid to Mr. Schneider and which were reported by him as income, were actually paid to Mr. Pendergast, who did not report this income, resulting in further evasion of income taxes. This method of having others report dividends and salaries actually belonging to Mr. Pendergast has been in effect since 1927, and Mr. Pendergast paid the income taxes assessed against the persons reporting this income.

He thus failed to report the following amounts of income received during the years 1935 and 1936:

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Nature of Income	Year 1935	Year 1936
Received from Mr. Street for the use of influence in effecting the settlement of the fire insurance rate litigation,	\$ 55,000.00	\$ 260,000.00
Dividends on stock owned, but not reported by him,	39,100.00	80,050.00
Salaries received but not reported by him,	4,700.00	4,700.00
Total unreported income,	\$ 98,800.00	\$ 344,750.00

By failing to report this income Mr. Pendergast evaded income taxes for the year 1935 in the sum of \$35,337.31, and for the year 1936, in the sum of \$230,127.84. In addition to these two years, Mr. Pendergast evaded income taxes in an aggregate amount of \$193,254.75 for the years 1927 to 1934, inclusive, and the year 1937, by using the method of having others report his income.

Little assistance was rendered by Mr. Pendergast in the investigation of his income tax liability. Practically all his transactions were made in currency and no records were produced by him to explain them. Witnesses were extremely reluctant to furnish any information. Among these witnesses were Mr. Lester Jordan, President, Sanitary Service company, Kansas City and Edward L. Schneider, Secretary-Treasurer of several corporations. Mr. Jordan was indicted for perjury by the Grand Jury for allegedly giving false testimony in connection with the financial affairs of Mr. Pendergast. Later, after Mr. Pendergast had signified his intention of pleading guilty, Mr. Jordan appeared before the United States Attorney M. M. Milligan and agents of the Intelligence Unit, Bureau of Internal Revenue and stated that Mr. Pendergast had encouraged him to give false testimony. Mr. Schneider, after approximately three weeks of questioning before agents of the Intelligence unit, Bureau of Internal Revenue and before the Grand Jury,

during which time he also gave false testimony, explained that Mr. Pendergast had finally granted him permission to tell the truth, which he did, admitting that practically all the stock held in his name, actually belonged to Mr. Pendergast. Mr. Jordan is still under indictment for perjury, but it is understood that he has purged himself before the Grand Jury and that the indictment against him will be dismissed. Mr. Schneider drowned in the Missouri river, three days after giving his testimony.

At the present time the United States Court at Kansas City is having an investigation made, whether the parties to the compromise settle-

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ment of the fire insurance rate litigation, which was presented to that court in May, 1935 and approved by it in February, 1936, had committed contempt of court. Furthermore, a State Grand Jury at St. Louis is conducting an investigation into the bribery features of the case, O'Malley, the recipient of some of the money, having been a state official at the time the money was paid. These investigations may involve Mr. Pendergast in further criminal action.

Mr. Pendergast was born at St. Joseph, Missouri on July 27, 1872, making him 66 years of age at the present time. During 1936, he had a heart attack, caused by coronary thrombosis, but recovered and as far as is known has had no other attacks since. During the same year he also suffered from abscesses of the lower portion of the colon, necessitating several operations. Since that time he has a drain on the right side of his body at the thigh to allow fetal matter to pass. He is married and has three children, Thomas J. Jr., who is 26 years of age and two daughters, Aileen, age 21 and Mrs. William E. Burnett, age 23. His wife and children own stock in several corporations, his wife in addition owns approximately \$100,000.00 in Government securities and his son is also president of the Thomas J. Pendergast wholesale Liquor Company, one of the largest distributors of liquor in the United States. Each one is financially independent. For the past ten years or more Mr. Pendergast has been an officer in several corporations, but his chief occupation has been as head of a political organization. This organization has practically dominated Kansas City and at times has also dominated large portions of the state of Missouri.

Prior to his indictment on April 7, 1939, Mr. Pendergast bore a good reputation among the majority of citizens of Kansas City. Although known locally and nationally as the leader of a political machine, whose henchmen committed many crimes, including vote frauds and were even at times suspected of murder, nevertheless the personal integrity and honesty of Mr. Pendergast were never directly questioned. However, after his indictment, the appalling corruption in the civic affairs of Kansas City under his regime became known to the citizens. Following his plea of guilty, the greed of Mr. Pendergast for money became apparent. This greed for money was induced to satisfy his inveterate desire to wager on horse races, a desire

which his attorneys characterized as a mania. He lost large sums of money on these horse races, it being alleged that in one year alone, he lost approximately \$600,000.00 and to offset these losses it was necessary for him to obtain money from any source possible. After these disclosures became known to the public, the major portion of the leading citizens appear to have changed their opinion of him.

Rudolph H. Hartman
Special Agent.