

C O P Y

TREASURY DEPARTMENT
Internal Revenue Service

Intelligence Unit
Chicago

Chicago, Illinois,
July 8, 1931.

WCE-32

CONFIDENTIAL

Internal Revenue Agent in Charge,
Chicago, Illinois.

In re Alphonse Capone,
7244 Prairie Avenue,
Chicago, Illinois.

Alphonse Capone is, without a doubt, the best advertised and most talked of gangster in the United States today. Reams and reams of newsprint and magazine paper has been used up in exploiting Al. Capone as the "Big Shot" in his various activities as the boss of the so-called Cicero syndicate which carried on a very lucrative business in manufacturing and selling beer and alcohol, operating gambling houses, and houses of prostitution.

Al Capone has been mentioned in connection with practically every major crime committed in Chicago within the last few years; possibly some of the stories are true, but, no doubt, a great deal of the stuff printed originated in the fertile brow of some newspaper reporter or magazine writer.

Al Capone, a punk hoodlum, came to Chicago from New York about 1920, as a protege of John Torrio, who, at the time was a lieutenant of Jim Colisimo. The first heard of Capone was as a bouncer in a notoriously tough joint called the "Four Deuces". In the course of time, Colisimo, following the path of all good gangsters, was "bumped off", and Torrio took control. True to tradition, the guns again began to blaze, but this time the person behind the gun evidently had poor eyesight and Torrio, instead of going to the

cemetary, took a vacation in the hospital. On getting out Torric evidently thought discretion the better part of valor, and migrated to New York. This left the field clear for Al Capone, who promptly muscled in, and due to free advertising in the newspapers became the "Big Shot", Capone, the immune, Capone, the idol of the hoodlum element, Capone, the dictator, free from arrest and prosecution by the local police, due, no doubt, to his lavish spending of money and giving bribes. Some time ago Capone was arrested on a vagrancy charge, and the states attorney had to dismiss the case for the reason that no policeman could be found in Chicago who knew Al Capone!

That Al Capone is shrewd, there is no doubt, which, together with his native Italian secretiveness, has made this case a most difficult one to handle. Al Capone never had a bank account and only on one occasion could it be found where he ever endorsed a check, all of his financial transactions being made in currency. Agents were unable to find where he had ever purchased any securities, therefore, any evidence secured had to be developed through the testimony of associates or others, which, through fear of personal injury, or loyalty, was most difficult to obtain.

This examination, along with the cases of various other Chicago gangsters, was assigned to Internal Revenue Agent W. C. Hodgins about two years ago. With the assistance of Special Agent N. E. Tessen and A. A. Martin, considerable work was done, such as making an analysis of the Pinkert State Bank remittance sheets and deposit slips for the years 1924 to 1928, from which lists were compiled of all clearing checks deposited or cashed showing the maker and last endorser. Bank accounts were analyzed, witnesses were interviewed, and every scrap of evidence possible was secured, on any of the gangsters, always with the object in view of eventually getting enough evidence together to successfully prosecute Al Capone.

This case caused such wide-spread interest that during May, 1930, Internal Revenue Agents H. N. Clagett, J. L. Westrich, and Special Agent Frank J. Wilson, were sent on from the east to assist in bringing this case to a successful conclusion. From this time on Special Agent Frank J. Wilson took charge of the case, and an intensive campaign was prosecuted, developing further evidence already secured and following up every possible lead that might develop into anything of value. Outside

help was solicited whenever possible, the United States District Attorney's Office was used when advantageous, witnesses were brought to Chicago and kept under guard, raids were made, telephone wires were tapped, hundreds of witnesses were interviewed, all with the object in view, not so much to develop a tax case but to sustain a criminal prosecution against Al Capone, thereby restoring to a degree the respect for Federal Laws that has not been in evidence among the gangster class during the past few years.

That agents have been successful is borne out by the fact that Ralph Capone was found guilty and is now under a three-year sentence in Leavenworth, Kansas, and is now out, pending a decision of an appeal. Jack Guzik was indicted, tried, found guilty, and sentenced to five years in Leavenworth, Kansas. He is also at liberty on an appeal.

Frank Nitto was indicted, pleaded guilty, and is now serving an eighteen months' sentence in Leavenworth, Kansas. Sam Guzik was indicted, pleaded guilty, and is now serving a one-year sentence in Leavenworth, Kansas. Louis Lipschultz was indicted and is waiting trial. Al Capone was indicted on various counts covering the years 1924 to 1929, inclusive, and on June 16, 1931, pleaded guilty to all counts in the indictments, and is now waiting to be sentenced. See Exhibit T.

On May 1, 1924, a gambling establishment was commenced in Cicero under the name of the Hawthorne Smoke Shop. During the years 1924, 1925, 1926, 1927 and 1928, this gambling establishment was raided from time to time and discontinued for short periods, and moved from one place of business to another in the immediate neighborhood, but was the same business operated by the same people. The government has a book record made by one of the managing operators, Peter Penovich, during the year 1924, and covering its transactions during that year, and by a bookkeeper, L. A. Shumway, during the year 1925 and until April 26, 1926, (the death of States Attorney McSwiggan). The book record shows net profits for the year 1924 of approximately \$300,000.00 for the year 1925, of approximately \$117,000, and for the four months of January, February, March and April, of 1926, of \$170,000. See Exhibit A.

The bookkeeper referred to will also testify that during the year 1924, Al Capone, Jack Guzik, Frank Nitto, Ralph Capone, Louis Alterie, Dion O'Banion, Louis La Cava, and Johnny Torrio, came to this gambling establishment and the operating manager requested the bookkeeper to step out, inasmuch as these men desired to discuss some confidential matters relating to the business. The bookkeeper will also testify that Al Capone was very frequently in the place and conversed with the two operating managers of the business, and on one occasion he heard Al Capone suggest to them that certain people be employed. On one occasion, Al Capone asked him what he, the bookkeeper, would do if he were held up some time on his way to the bank with the profits of the business, and he replied that he would do nothing, simply let them take the money. Al Capone answered that that would be the correct thing to do. On the occasion of a raid on Derby Day, May 17, 1925, which will be mentioned more fully later, Al Capone directed this bookkeeper to get the funds which were in the safe, which consisted of a rather large amount of money, the exact amount not determinable, and remove them from the place that was being raided.

On the occasion of a raid which followed the murder of States' Attorney McSwiggan in 1926, this bookkeeper, at the direction of one of the operating managers of the business, removed some \$34,000 from the safe of the gambling establishment and in company with this operating manager met Louis La Cava, Jack Guzik and Frank Nitto at the Atlantic Hotel and paid the money over to Louis La Cava. Just about two weeks prior to this payment, Al Capone and Louis La Cava had opened a joint safe deposit vault which neither could open except in the presence of the other. This safe deposit vault was visited occasionally for a short time both before and after this payment by Al Capone, and Louis La Cava.

On Derby Day, May 17, 1925, this gambling establishment was raided by a posse of deputy sheriffs under the leadership of a minister and a group of other citizens constituting a citizen's welfare organization from the western part of Chicago. When this raid had first started, Al Capone appeared on the scene unshaved, with his clothes drawn on hastily over his pajamas, and tried to secure admission. He was intercepted at the door and then made the statement that he was the owner

of the place, whereupon he was admitted. This statement was repeated before two reliable witnesses. On coming into the establishment where the raid was in progress, he turned to the minister and muttered a threat to the effect, "This is the last raid you'll ever pull on me." He went over to the till and started stuffing money into his pockets and designated a certain employee there to take charge of the other money on hand. He also said, "What are you fellows always picking on me?" He then left and sometime later came back shaved, fully dressed, and in a pleasant humor. He asked the minister to step to one side and then said to him, "Can't we get together? If you'll let me alone here I'll withdraw from Stickney." (Stickney is a suburb where a house of prostitution had been operating and had been raided by the same organization.) The minister indicated to him that he would not be able to get together on that basis. See Exhibit C. While the gambling apparatus was being removed, one of the managers of the place asked the officers if they couldn't take one or two small pieces as evidence and leave the rest. The minister said that could not be done. Al Capone then spoke up, and, pointing to a rather large and valuable piece of gambling paraphernalia, said, "Don't take that one, that belongs to me".

In the year 1927 a cashier's check in the amount of \$2500 from the profits of the gambling establishment at that time bears the endorsement of Al Capone. (Al Capone is the second endorser on this check; the check is made payable to J. C. Dunbar, who was cashier of the establishment and whose name appears as the first endorsement.) See Exhibit I.

Various employees will testify that Al Capone was at the gambling establishment on different occasions throughout the years of its operation and when there frequented the private office and private wire rooms where customers and employees were not allowed to go.

In the year 1924, the gambling profits were \$350,250.95, (See Exhibit A). Much conflicting testimony was given regarding the split for this year. See Exhibit B, C, D. However, in preparing the case for criminal prosecution, the Assistant United States Attorney handling the case requested internal revenue agents who were cooperating with them to investigate the statement of P. Penovich, Jr., to the effect that the distribution for the year 1924 was as follows:

Dion O'Banion, represented by Dave Bates	18%
Frank Pope	18
John Torrio, represented by L. Alterie	18
P. Penovich, Jr.	5
Al Capone	<u>41</u>
	100%

These are the figures used in the indictment and are believed to be fairly correct.

On September 20, 1930, L. P. Mattingly filed with Mr. C. W. Herrick, Internal Revenue Agent in Charge, at the Chicago Office, a statement in behalf of Al Capone. See Exhibit N. In this exhibit he states "Taxpayer became active as a principal with three associates at about the end of the year 1925 *****"

"The profits of the organization of which he was a member was divided as follows: One third to a group of four regular employees, and one sixth each to the taxpayer and three associates". See Exhibit N.

The three associates referred to, it is believed, are Jack Guzik, Ralph Capone, and Frank Nitto. For the year 1925 one sixth of the total checks cashed and deposited by the three other members of the syndicate is charged to Al Capone, (See Exhibits E-4-H-F-G 3.) A small account in the name of Mae Capone, taxpayer's wife, was found in the West Side Trust and Savings Bank. The total deposits of \$2500 is added to taxpayer's income. In addition to this 52% of the Cicero gambling operations is charged to taxpayer as income, making a total of \$257,339.55.

From the examination of testimony of P. Penovich, Jr. and F. Pope, at the request of the district attorney's office, it is believed the split for 1925-1926 was as follows:

Town officials	20%
Frank Pope	18
P. Penovich, Jr.	5
Ralph Capone	5
Al Capone	<u>52</u>
	100%

For the year 1926, income has been computed on a basis of one sixth of the total deposits and checks cashed by Jack Guzik, Ralph Capone and Frank Nitto, amounting to \$107,271.28; to this is added 52% of the Cicero gambling profits making a total of \$105,677.00 gross income. See Exhibits E-9, F, G, 5-A.

For the year 1927, in addition to checks cashed and deposits made by Jack Guzik, Ralph Capone, and Frank Nitto, the deposits of Sam Guzik were also considered as income of the syndicate. Large sums were transferred to Jack Guzik and it is believed he was a collector for the syndicate. One sixth of the checks cashed and deposited amounts to \$205,557.04, to which is added \$10,000 investment in Hawthorne Kennel Club, and a cashier's check cashed, makes a total gross income of \$218,057.04. During the Jack Guzik trial, Fred Ries, alias I. C. Dunbar, testified he purchased about \$134,000 in cashier's checks which represented surplus of the gambling houses he worked for owned by the syndicate. \$46,000 of these were cashed by Jack Guzik, the balance being deposited. During the year the Hawthorne Kennel Club was organized. It now appears that Al Capone had an investment of \$10,000 in this corporation and as it is not known how he acquired this stock, same is added to income. Likewise, a cashier's check purchased by Fred Ries, alias J. C. Dunbar, for \$2500, and cashed by taxpayer, personally. See Exhibits E-20, L. F. G-6, I. J. and K.

For the year 1928, income was computed on a basis of one-sixth of Jack Guzik, Ralph Capone and Sam Guzik, which amounts to \$147,203.59; to this is added a \$10,000 Liberty Bond purchased at The First National Bank, Cicero, and turned over to the Roosevelt Finance Company in payment of a loan.

In 1928, approximately \$72,000 was sent from Chicago to Al Capone, in Florida, by wire transfer at irregular intervals in amounts of approximately \$2,000 or thereabouts. Some of the transfers are as low as \$300 and some run as high as \$5,000. These transfers were sent during a period of five or six months, some transfers being sent daily and sometimes with intervals of four or five weeks elapsing between transfers.

These transfers were sent from Chicago by Rocco Fischetti, (who was seen frequently with Al Capone in gambling establishments), Joe Fusco, George Howlett, Sam Guzik (brother of Jack Guzik, Capone's chief lieutenant and business manager), and Bobby Barton. Bobby Barton was the recipient of cashier's checks from the cashier of one of the gambling establishments and deposited many of these checks in Jack Guzik's bank account. He was messenger and chauffeur for Jack Guzik.

These wire transfers in a few cases were sent to Al Capone in his own name and in most cases to him under the name of A. Costa, who can be identified as Al Capone by Western Union employees. See Exhibit H.

Mr. Mattingly, in his letter to Mr. Herrick, admits income of \$100,000 for 1929, but inasmuch as the rough draft of this letter reads \$2,000 a month, income has been fixed at \$104,000. A deduction of \$1.00 has been allowed for all years.

That the syndicate was selling beer is certain. During the Ralph Capone trial checks were traced from Ralph Capone's bank account to Hak Brothers and John Kunz. Mr. Miles Hak and Mr. Kunz testified these checks were given in payment of beer. That they were in the alcohol business is equally certain. Many checks drawn on the account of Max Altersohn was cashed by Frank Nitto. Mr. Altersohn states these checks were given in payment of alcohol; also a statement from another witness in Davenport, Iowa, saying L. Lipschultz from whom he purchased alcohol, told him (the witness) that he (L. Lipschultz) was working for Al Capone.

Some time ago Special Agents Malone and Sullivan were drafted into the case for the purpose of developing evidence that would connect the syndicate with several houses of prostitution located in Stickney, Illinois. Several of Jack Guzik's checks were traced to the Maple Building Corporation, in payment on the building housing a notorious joint called The Stockade. It is believed that Special Agents Sullivan and Malone were making progress in developing evidence to establish ownership by the syndicate of the Harlem Inn and the Shadow Inn, both in Stickney, Illinois, when the case broke and Al Capone pleaded guilty.

The only known assets of Al Capone is his home in Florida. See Appraisal, Exhibit S. Two automobiles partly paid for, personal effects, and his stock in the Hawthorne Kennel Club.

The report is made as near as possible in accordance with the figures used in the indictments. Changes were made for the years 1925 and 1929, due to correction of figures, otherwise the figures used are the same. See Exhibit T.

This case, while it has been long drawn out and very difficult in some respects, has been brought to a successful conclusion and agents feel the results accomplished have justified the time and energy used.

Agents wish to take this opportunity to thank Mr. A.P. Madden for his fine spirit and cooperation throughout the examination, Mr. Frank Wilson for his patience and forbearance, when everything seemed to go wrong, for the consideration of the welfare and comfort of the men working with him, for his advice and council, and his willingness to put his shoulder to the wheel whenever needed to carry the load over the hill; Mr. Nels Teassem, for his bulldog tenacity in holding on until the last scrap of evidence had been extracted; other members of the Intelligence Unit for their splendid help and cooperation when needed, and the district attorney's office and its various members for their advice and council on the law.

The moral shown in this case has been wonderful. Nobody shirked - on the contrary, everybody we think did their very best at the particular task they were assigned, all working for a common good, and this we believe is what put the case over.

W. C. Hodgins,
Internal Revenue Agent.

Jacque L. Westrich,
Internal Revenue Agent.

H. M. Clagett,
Internal Revenue Agent.

COPY

1925

Computation of Income and Tax on basis of partnership.

Alphonse Capone.

	Jack Gusik	Ralph Capone	Frank Bitto	Sam Gusik	Total
Deposits Equitable	\$278,743.49				
Cash. Cr. Harry Burns	10,000.00				
Deposits Pinkert		447,247.23			
Checks Cashied			425,261.99		
					<u>1,152,246.71</u>
					193,707.73
					2,500.00
Mae Capone West Sd. Tr. & S.					<u>51,079.29</u>
52% Gambling		117,460.00			<u>257,286.98</u>
					193707.73
					2500.00
					<u>51079.29</u>
					257286.98
					<u>1.00</u>
					257285.98
					<u>3900.00</u>
					253385.98
Income 1/5 Ex. ac.					
Mae Capone, A/c W. Sd. T. & S. Ex.					
52% income fr. gamb. oper.					
Less deductions					
Less exemption					
1 1/2%	4,000.00		50.00		
3	4,000.00		120.00		
5	245,385.98		12,269.30		
Surtax	257,285.98		43,117.20		
			<u>55,566.50</u>		
					55,566.50
Earned Inc.	20,000.00				
Lex Ex.	<u>3,900.00</u>				
	16,100.00				
1 1/2%	4,000.00		50.00		
3	4,000.00		120.00		
5			405.00		
Surtax			<u>220.00</u>		
			4,805.00		
			<u>201.25</u>		
	25%		Tax		
					<u>201.25</u>
					55366.25

COPY

1926

	Jack Gusik	Ralph Capone	Frank Hitti	Sam Gusik	Total
Deposits Equitable	159,413.11				
Deposits Pinkert		314,540.45			
Checks Cashed	1/6		159,574.13		
					<u>643,627.69</u>
					107,271.28

52% of gambling - Ship 170,011.00

INCOME

88,405.72
195,677.00

1/5 bank ac.
Inc. Ship etc.

107,271.28
88,405.72

Less deduction

195,677.00
1.00

Exemption

195,575.00
3,900.00
191,775.00

1 1/2%	\$4,000.00	60.00
3	4,000.00	120.00
5	153,776	91,133.50
Surtax	195,575	<u>30,795.20</u>
		40,154.00
		<u>201.25</u>
		39,962.75

Earned Inc. Cr. Same as 1925
TAX

COPY

1927

	Jack Guzik	Ralph Capone	Frank Hitte	Sam Guzik	Total
Deposits Equitable	601,554.43				
Dunbar checks cashed	46,000.00				
Deposits Pinkert Checks cashed		415,912.38			
Deposits Schiff Tr and Sav. Bk.			75,224.25		
Deposits Equitable			2,113.24		
Investment Hawthorne Kennel Club Cashier's check J.C. Dunbar	1/5			91,437.42	1,233,342.22
					<u>205,557.04</u>
					1,000.00
					2,500.00
					<u>213,057.04</u>

INCOME

1/5 Bk. s/c
Cashier's ck. cashed
Investment Hawthorne Ken. Club

205,557.04
2,500.00
<u>10,000.00</u>
218,057.04
1.00
<u>218,058.04</u>
3,000.00
<u>214,158.04</u>

Less deductions

Exemption

1 1/2	4,000
3	4,000
5	206,158.04
Surtax	<u>218,056.04</u>

50.00
120.00
10,307.30
<u>35,271.21</u>
45,759.01
<u>201.25</u>
45,557.76

Less earned inc. same as 1925

TAX

COPY

1928

	Jack Guzik	Ralph Capone	Frank Nitti	Sam Guzik	Total
Deposits Equitable	245,197.42				
Deposits Con- gress T & S	86,460.50	421,436.71			
Deposits Pinkert Equitable		257,836.72			
Liberty Bond	1/6			193,726.95	733,221.58
					<u>130,536.93</u>
					10,000.00
					<u>140,536.93</u>
					INCOME
					<u>140,536.93</u>

1/6 bk. ac.
Lib. Bond
Less Deductions
Exemption

130,536.93
<u>10,000.00</u>
140,536.93
<u>1.00</u>
140,535.93
<u>3,900.00</u>
136,635.93

1 1/2	4,000	60.00
3	4,000	120.00
5	128,535.93	6431.79
Surtax	140,535.93	<u>19767.13</u>
		25378.97

Earned inc.	30,000.00
Exemp.	<u>3,900.00</u>
	26,100.00

1 1/2	4,000.00	60.00
3	4,000.00	120.00
5	13,100	905.00
Surtax	30,000	<u>330.00</u>
		1965.00
		491.25
		<u>491.25</u>
		TAX 25337.72

203

COPY

1929.

Income
52 wks. at 2000.00
Less Ded.

INCOME

104000.00

1.00

103999.00

3900.00

100099.00

Exemption

1/2 \$4000
2 4000
4 92099
Surtax 103999

20.00
80.00
3683.96
12459.80
16243.76

Earned Inc.
Ex.

30,000

3,900.

26,100

1/2 4000
2 4000
4 15100
Surtax 30000

20
80
724
880
1704
426

25%

426

TAX

15817.76