

TREASURY DEPARTMENT  
WASHINGTON

OFFICE OF  
CHIEF, INTELLIGENCE UNIT BUREAU OF INTERNAL REVENUE

SI-16353-F  
MM

January 30, 1940.

RECORD OFFICE RECEIVED FEB 5 1940

Mr. Robert H. Hudspeth,  
Warden, U. S. Penitentiary, Leavenworth, Kansas.

Dear Sir:

In reply to your communication of January 22, 1940, concerning John Joseph Pryor [56309-L], who was sentenced to serve two years' imprisonment, there is transmitted herewith a report of Special Agent Alfred W. Fleming, dated January 26, 1940.

Yours very truly,  
W. H. Woolf,  
Acting Chief, Intelligence Unit.  
Enc.

CC - Mr. James V. Bennett, Director, Bureau of Prisons.

TREASURY DEPARTMENT  
INTERNAL REVENUE SERVICE

INTELLIGENCE UNIT  
KANSAS CITY

(Name of Division)

Kansas City, Missouri,  
January 26, 1940.

SI-16353-F.

AWF:M

INTERNAL REVENUE INTELLIGENCE UNIT JAN 29 1940

Report Examined, Approved and Forwarded to Chief, Intelligence Unit

Chas. O'Berry

Special Agent in Charge

Kansas City Division

PAROLE REPORT.

Chief, Intelligence Unit,

Bureau of Internal Revenue, Washington, D. C.

In re: John J. Pryor,

Lees Summit, 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 John J. Pryor, charged with evasion of income taxes and now serving sentence in that institution.

Mr. Pryor was indicted December 1, 1939, at Kansas City, Missouri, on nine counts as follows: (Counts 1 to 3, inclusive), wilfully attempting to defeat and evade his individual income taxes for the calendar years 1934, 1935 and 1937; (Count 4), those of the Dixie Machinery and Equipment Company for the calendar year 1934; (Counts 5 to 8, inclusive), those of the Boyle-Pryor Construction Company for the calendar years 1934 to 1937, inclusive, and (Count 9) those of the Missouri Asphalt Products Company

for the calendar year 1935.

Mr. Pryor made a voluntary appearance on December 2, 1939 and was released on \$10,000 bond, which was first set as returnable on December 4, 1939, but was later continued to December 6, 1939, on which date he was arraigned before Federal Judge Merrill E. Otis and entered a plea of not guilty to all nine counts of the indictment. Judge Otis set the trial as of January 22, 1940. On January 13, 1940 Mr. Pryor at his own request appeared before Judge Otis and changed his plea to guilty to the first three counts of the indictment, the remaining six counts being dismissed.

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Mr. Pryor was sentenced on the first count for 1934, to two years in prison, and a fine of \$5,000. On the second count, for 1935, two years in prison and \$5,000 fine, the terms to run concurrently. On the third count, for 1937, three years in prison, to run consecutively, suspended in favor of five years probation, and \$10,000 fine. In addition to the payment of the fines, one of the conditions of the probation is that within five days after actual institutional custody under said sentence has terminated, the defendant will pay into the treasury the full amount of the income taxes and civil penalties assessed against him, or such lesser amounts as the department of the treasury shall consent to accept in full settlement.

After passing sentence Judge Otis stated in open court, "If I am asked for a recommendation I shall recommend that the full sentence imposed shall be served."

Mr. Pryor was the president, or other principal officer, and the record owner of fifty per cent of the capital stock of the Dixie Machinery and Equipment Company, the Boyle-Pryor Construction Company, and the Missouri Asphalt Products Company. Mr. William D. Boyle (deceased) was the owner of the other fifty per cent of the capital stock of said corporations, with one share of capital stock of each corporation being held in the name of Roy W. Crimm.

Those corporations received large amounts of income for the rental of machinery, construction work, and the sale of asphalt to the city of Kansas City, Missouri, and to the

State of Missouri, or subdivisions thereof. Timely corporation tax returns, signed by Mr. Pryor, were filed for all years covered by the indictment, however, the net income reported on said returns was understated mainly by use of the following methods:

1. Warrants issued to the corporations in payment of services rendered were cashed and the proceeds thereof would not be entered on the books of the corporation but the money apparently was distributed in cash to the owners of the corporations.

2. A second method used was by depositing warrants received in payment for services rendered and then to

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enter them upon the books of the corporations as loans made to the corporations; but the books of the corporations failed to show any repayment of any such loans.

3. A third method employed was to deposit warrants received in payment for services rendered and enter them as receipts upon the books of the company, and in making out the income tax return to leave these items off altogether.

4. Another method or device frequently used was to write checks against the funds of these corporations made payable to cash. The defendant and his business partner were able to cash these checks at the banks upon which they were drawn without being required to endorse the same and the records of the banks do not throw any light upon who cashed said checks. Such withdrawals were then entered upon the books as items of expense for the purchase of materials or for the payment of fictitious pay rolls. The books of the Boyle-Pryor Construction Company and the Missouri Asphalt Products Company each carried a padded pay roll averaging \$4,000 a week from approximately September 15 to December 15 of 1935. One hundred and eighty nine checks drawn to cash and falsely charged to these pay rolls were written between said dates and were held until February 7, 1936, which was a short time before the date for filing the corporation income tax returns for the calendar year of 1935, when they were all cashed on one day in the total

amount of \$130,000.

5. Another method or device was the formation of a fictitious partnership known as the Rathford Engineering Company, which firm received approximately \$5,000 a month from the city of Kansas City, ostensibly as payment for services in searching for water leaks. Testimony is conclusive that the net proceeds of said fees were delivered to the defendant and his partner Boyle, which income was reported in fictitious returns filed by persons who, in fact, did not receive the money.

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By way of summary the amount of the net income not reported and the amount of income taxes evaded on the returns of the corporations named and for the years mentioned in the indictment, is as follows:

	Net Income Not Income Tax	
	Reported	Evaded
Dixie Machinery and Equipment Company		
1934	\$ 301,055.36	\$ 38,252.72
Boyle-Pryor Construction Company		
1934	\$ 74,934.93	\$ 10,303.55
1935	298,601.54	41,057.67
1936	174,188.50	49,053.97
1937	105,249.17	30,261.11
	<u>\$ 652,974.14</u>	<u>\$ 130,676.30</u>
Missouri Asphalt Products Company		
1935	\$ 99,158.73	\$ 13,634.33

TOTALS

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1,053,188.23    \$    303,698.39

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Mr. Pryor, while he signed the heretofore mentioned returns of said corporations as president or other principal officer, would be liable for only fifty percent of the tax payable by said corporations for the years involved because his interest in said corporations, so far as the records of the corporations show, was only in that proportion, the other fifty per cent in corporate stock being the property of the late William D. Boyle.

The facts in this case show that Mr. Pryor's individual income came from the three heretofore mentioned corporations. Large sums of money were turned over to him from the said corporations, not as regularly declared dividends but by way of withdrawals made by the

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corporations' checks against the corporations' bank account, or by the distribution of cash received by the corporations which was never entered upon the books of the corporations.

In charging Mr. Pryor with the income received by him individually from these corporations, he has been charged with fifty per cent of all of the withdrawals made from the funds of the corporations which were not for necessary and legitimate deductible expenses. The other fifty per cent of such withdrawals are charged against his business partner William D. Boyle.

In addition thereto Mr. Pryor has been charged with one-half of the net proceeds of the income received in connection with collections by the Rathford Engineering Company from the municipality of Kansas City, Missouri.

A tabulation of the net income not reported by Mr. Pryor and the amount of income taxes evaded on the individual returns filed by him as shown by, and for the years mentioned in the indictment is as follows:

Net Income Income Tax

John J. Pryor	Net Income Not Reported	Income Tax Evaded
1934	\$ 194,487.05	\$ 81,751.08
1935	234,576.82	105,049.99
1937	204,137.09	116,897.32
TOTALS	\$ 633,200.96	\$ 303,698.39

Practically all of Mr. Payor's transactions were made in currency, therefore it was impossible to trace to his personal accounts all of the income charged to him. The investigation disclosed that \$45,372.05 in checks issued to cash by the heretofore mentioned three corporations were deposited to the bank accounts of either Mr. Pryor or his wife during the years mentioned in the indictment. In addition to this the sum of \$157,836.77 went into his bank account from unknown sources.

Mr. Pryor was born December 17, 1873, in Kansas, making him 66 years of age at the present time. His early days were spent

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in the first ward of Kansas City, Missouri, where he became identified with the political system which later was to dominate the governmental affairs of Kansas City. He is married and has lived for many years with his wife at their home at Lees Summit, Missouri. He has no children.

Mr. Pryor was co-operative at all times with the investigating agents so far as the production of all records of the corporations was concerned, but he was not co-operative as to the production of his personal records and has made no explanation as to the source of the deposits in his bank account. In that respect he claims that his records have been destroyed.

Alfred W. Fleming, Special Agent.