

Question 10

10. Please explain how the organizations you believe qualify as integrated auxiliaries for purposes of sections 508 and 6033 meet the requirements of Revenue Procedure 86-23.

We have requested that the Service recognize the following organizations as integrated auxiliaries for purposes of sections 508 and 6033:

Church of Scientology Religious Trust ("CSRT")  
Scientology International Religious Trust ("SIRT")  
Flag Ship Trust ("FST")  
Church of Scientology Freewinds Relay Office ("CSFRO")  
Building Management Services ("BMS")  
Dianetics Center International ("DCI")  
Dianetics Foundation International ("DFI")  
Hubbard Dianetics Foundation ("HDF")  
Inspector General Network ("IGN")  
International Hubbard Ecclesiastical League of Pastors ("IHELP")  
California Association of Dianetics Auditors ("CADA")  
New Era Publications ("NEP")  
Bridge Publications Inc. ("BPI")

Each of these organizations meets the requirements of Revenue Procedure 86-23, 1986-1 C.B. 564, the Service's "safe harbor" definition of integrated auxiliary. Under Revenue Procedure 86-23, an organization will qualify as an integrated auxiliary if it is (1) described in section 501(c)(3); (2) described in section 509(a)(1), (2) or (3); (3) affiliated with a church; and (4) "internally supported."

1. Section 501(c)(3). We have shown through our various submissions and presentations over the past year that all of the foregoing organizations exclusively further Scientology religious purposes and all but two are described in section 501(c)(3). We also have shown that the two exceptions -- BPI and NEP -- operate exclusively for Scientology religious purposes and would qualify as organizations described in section 501(c)(3) but for the organizational test of Treasury regulations section 1.501(c)93-1(b).

In order to come into full compliance with section 501(c)(3), BPI will amend its organizational documents to convert to a nonprofit religious corporation under the California Nonprofit Corporation law. NEP will take analogous action as permitted by Danish law. At that time, both corporations will be organized and operated exclusively for section 501(c)(3) purposes.

2. Section 509(a)(1), (2) or (3). With the exception of BPI and NEP, each of the remaining auxiliary organizations is publicly-supported within the meaning of sections 509(a)(1) and 170(b)(1)(A)(vi) in that they all are indirectly supported by the contributions of hundreds of thousands of Scientologists, who provide churches of Scientology with approximately 80 percent of their financial support. However, since these organizations perform a distinct support function for CSI and other Scientology churches and the benefits of section 509(a)(1) status are not of use in the context of a hierarchical church, the auxiliary organizations other than BPI and NEP seek classification under section 509(a)(3) as support organizations for CSI and other churches of Scientology. At the time NEP and BPI provide you with exemption applications, they will request a definitive ruling under section 509(a)(2) based on the nature and sources of their support for the four-year period preceding their first year tax-exempt year.

The remaining auxiliary organizations will qualify as organizations described in section 509(a)(3) by meeting three separate tests: a relationship test, an organizational and operational test, and a control test.

(a) Relationship Test. Each of the organizations satisfies the relationship test as an organization that is "operated, supervised, or controlled by" the support organization in question (either CSI, RTC or SMI, or some other church of Scientology) under Treasury Regulations section 1.509(a)-4(g)(1) because the supported organization has a substantial degree of direction over the policies, programs and activities of the supporting organizations, as we have shown in prior submissions. Thus, the supporting organization in each case also is under the direction of and accountable or responsible to the supported organization, just as a subsidiary is to a parent. Moreover, in every case the supported organization also directly or indirectly determines the members of the supporting organization's governing body. These relevant relationships are described in Exhibit IV-10.

(b) Organizational and Operational Tests. All of the auxiliary organizations meet the organizational and operational tests of section 509(A)(3)(A) because they are organized and operated exclusively "for the benefit of, to perform the functions of or to carry out the purposes of "churches of Scientology. As shown in Exhibit IV-10, each has an organizational purpose that is similar to the purpose of the supported organization. See Treas. Reg. § 1.509(a)-4(c)(2). In addition, the auxiliary organizations need not specify the supported organization by name in their organizational documents because each auxiliary organization and its supported

organization have an historic and continuing relationship and have developed substantial identity of interests. Treas. Reg. 1.509(a)-4(d)(2)(b)(iv). Furthermore, the auxiliary organizations operate exclusively to support CSI and other churches of Scientology because they engage "solely in activities which support" the supported churches. See Treas. Reg. § 1.509(a)-4(e).

(c) Control Test. The third requirement is that the supporting organization not be controlled directly or indirectly by one or more disqualified persons other than foundation managers or organizations described in sections 509(a)(1) or (2). As shown by Exhibit IV-10, the auxiliary organizations meet this requirement because selection of the individuals who serve on the governing body of each is controlled by the particular supported organization, all of which are described in section 509(a)(1).

3. Affiliated with a Church. The third requirement of Revenue Procedures 86-23 is met if the auxiliary organization "is operated, supervised or controlled by or in connection with" the church as defined in Regulations section 1.509(a)-4 or if certain relevant facts and circumstances show that it is so affiliated. These facts and circumstances are also described in Revenue Procedure 86-23, section 4. Our prior showing that the auxiliary organizations are "operated, supervised or controlled by or in connection with" CSI and other churches of Scientology for purposes of section 509(a)(3) and Regulations section 1.509(a)-4 also satisfies this requirement.

4. Internal Support. Finally, the integrated auxiliary must derive the majority of its financial support from "internal" church sources. As provided by Revenue Procedure 86-23, section 5, an organization is "internally supported" unless it both (1) offers admissions, goods, services, for sale to the general public other than on an incidental basis, and (2) normally receives more than 50 percent of its support from the government, community fund drives, and receipts from related trade or businesses.

Only two of the auxiliary organizations -- BPI and NEP -- fail the first prong of the test since they are the only organizations that offer admissions, goods, services or facilities for sale to the general public. However, as shown by Exhibit IV-10, in 1992 these two organizations derived the vast bulk of their receipts (83 percent for BPI, and 99 percent for NEP) from Scientology internal sources -- churches of Scientology and Scientology-related organizations. (NEP and its subsidiaries derive approximately 92 percent of their receipts from internal sources on a consolidated basis.) BPI and NEP respectively receive only 17 and 1 percent of their financial support from nonScientology sources. Thus, all of the auxiliary organizations are internally supported as required by Revenue Procedure 86-23.