

RESPONSE TO FINAL SERIES OF QUESTIONS

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Question 1

1. Please describe how parishioner donations for religious services are accounted for.

Participation in training and auditing religious services at a church of Scientology by a parishioner is preceded in many cases by a fixed donation with respect to a particular religious service or series of services. Often these donations are made in advance of participation in the service. There may be a series of small donations made over time which add up to the amount requested.

When a parishioner makes a donation with respect to a religious service, whether he intends to start that service immediately or at sometime in the future, there is a credit invoice written (Exhibit IV-1-A) for the amount of the donation and the parishioner is given the top white copy for his records. Another copy is filed and logged in his or her parishioner folder. (Exhibit IV-1-B.) The other invoice copies are used for accounting purposes.

When a parishioner commences a service, a debit invoice is written for the donation amount requested for participation in that particular religious service. (Exhibit IV-1-C.) A copy of the debit invoice is given to the parishioner for his records and another copy is attached to a form which is then taken by the parishioner to the Course Supervisor in the case of training or to the Director of Processing in the case of auditing. Another copy is filed and logged in the parishioner's folder. In many instances, a parishioner will have donated funds in excess of the amount requested. Both the Church and the parishioner, then, maintain a record of unused donations on account. A parishioner may also have donated funds to another Church of Scientology which he can request be transferred to the Church where he wishes to participate in religious services. (Exhibit IV-1-D.)

In addition to these accounting records, the parishioner and the Church track a parishioner's participation in religious services in terms of his progress as a spiritual being. The nature of the service taken varies from parishioner to parishioner depending where he or she is on the Bridge. There is a sequence of services for both the training and auditing sides of the Bridge. For example, one cannot train to become a Level Two auditor until one has successfully completed training on Level One and so forth. Similarly, one cannot be audited on Grade III until one has completed Grade II. The Bridge consists of a series of gradient steps, each of which prepares one for the next more difficult step so that it too can be successfully attained.

Question 2

2. Please describe the new computer software system that is being developed for use in all churches of Scientology and Scientology-related organizations.

Church of Scientology Planned Computerization

Church of Scientology International ("CSI") is developing accounting software for use in all churches and Scientology-related organizations around the world. CSI is utilizing an available accounting software package produced by FourGen Software. The FourGen software was chose by CSI because it is a fully featured accounting package utilizing the computer language INFORMIX-4GL, a language previously used by the Church in other programs.

The use of an accounting software program will not change materially Scientology accounting procedures. The same documents which now make up the accounting system will be produced, i.e., invoices, disbursement vouchers, account summaries, etc. The documents simply will be produced electronically, but will be maintained in hardcopy as well as softcopy. The system will provide for electronic writing of invoices, disbursement vouchers and checks, and will include the Scientology purchase order system and financial planning procedures as dictated by Church policy. It also will include procedures for performing an "audit", that is, the Scientology accounting procedure for categorizing all bank account debit and credit transactions. It will have the capacity to produce standard journal entries, general ledgers and financial statements.

Modifications are being made to the FourGen program to adapt it for use by Scientology organizations. These modifications include adaptations to accommodate Scientology's fund raising system, accounting for more than one ecclesiastical organization within the same corporation, proper recordkeeping for parishioner accounts and so forth. Electronic records will be permanent once posted. Any changes will be by journal entry only and a full audit trail will be maintained from an original entry to the final balance sheet.

Question 3

3. Please provide Exhibit I-9 and I-17 information for Church of Scientology Religious Education College for 1989 and 1990.

The requested information is attached on Exhibit IV-3.

Question 4

4. Please describe Assisco, S.A. What are its function?
What happened to its assets when it was dissolved?

Assisco, S.A. was incorporated in Luxembourg in December 1980. Assisco provided accounting and administrative services to various non U.S. Scientology-related organizations during the 1980s. It maintained an office in the United Kingdom at Church of Scientology Religious Education College.

Assisco was liquidated in 1988 and its assets distributed to Scientology International Reserves Trust ("SIRT"). The value of assets distributed to SIRT from the liquidation of Assisco was \$70,748.

Question 5

5. Please describe Tesla Resources, Inc. What was its function? Does any Scientology-related entity own any interest in the company?

During his lifetime, Mr. Hubbard invested in oil field technology and equipment in Lafayette, Louisiana. Trailour Oil Company, and related entities were in partnership with Mr. Hubbard to exploit the technology to detect otherwise hidden oil and gas reservoirs. In 1986 Trailour Oil Company and related entities declared bankruptcy.

Tesla Resources, Inc., and its related company, Tesla Technologies, Inc., were formed in mid-1986 to exploit the oil field technology and equipment Trailour Oil Company had been using. As its formation, Tesla Resources, Inc., was primarily owned by Author's Family Trust. Additional investors were later admitted to Tesla, but no Church of Scientology or Scientology-related organization ever invested in Tesla.

In 1988, the Tesla group merged with Western Resources, Inc., a company listed on the Vancouver Stock Exchange. Author's Family Trust received stock in Western and a small royalty interest in exchange for its interest in Tesla. In 1992, Western Resources, Inc., was merged with WRT Energy, Inc., a company traded on NASDAQ. Author's Family Trust received stock in WRT Energy and a royalty interest in exchange for its interest in Western. Currently, Author's Family Trust owns 75,000 shares in WRT Energy, which represents approximately 10% of WRT Energy's outstanding shares.

Question 6

6. Please describe the formation and corporate structure of IAS and its "service arms." Please provide Exhibit I-9 information for IAS and its service arms.

The International Association of Scientologists ("IAS") has four separately-incorporated "service arms" --- Theta Management Limited ("TML"), International Membership Services Administration, N.V., d/b/a IAS Administrations ("IASA"), and Membership Services Administration (U.K.) Limited ("MSA"). As noted in previous responses, IAS uses these entities because, as an unincorporated association, IAS cannot hold any property or carry out any activities in a legally cognizable manner.

Theta Management Limited

TML was incorporated under the laws of Cyprus in October 1984 to perform fundraising and administrative services for the IAS. The initial shareholders were two Cypriots, Costas Kemidjis and Marina Marangos, each of whom, in accordance with the laws of Cyprus, held 2500 shares as nominees for IAS. In August 1986, at the direction of IAS, Marina Marangos assigned her nominal share ownership in TML to Taslaw Nominees, Ltd. ("Taslaw"), a Cyprus corporation. At the same time, Taslaw and Kemidjis executed declarations of trust and assignments in blank of their TML shares to Pauline Chatterton and Helen Wehl, respectively. On July 15, 1987, another 10,000 TML shares each were issued to Taslaw and Kemidjis, subject to new declarations of trust and assignments in blank to Chatterton and Wehl. On August 17, 1987, Chatterton and Wehl each executed individual declarations that each held 12,500 TML services in trust for the IAS.

TML has declared and paid dividends to IAS as follows:

1988	\$ 200,000
1989	348,000
1990	480,000
1991	539,500

TML has not paid any additional dividends.

IAS Administrations

IASA was incorporated as an offshore company under the laws of the Netherlands Antilles on December 22, 1987. The initial shareholders were Carl Heldt and Maureen Brigatti, as nominees for IAS; their nominee relationship was memorialized in a trust declaration dated November 15, 1990. On December 31, 1991,

Brigatti and Heldt entered into an agreement with CTM Administration Foundation, N.V. ("CTM"), a Netherlands Antilles corporation, under which CTM agreed to become IASA's registered shareholder as nominee for Brigatti and Heldt.

IASA has declared and paid dividends to the IAS as follows:

1989	200,000
1990	525,000
1991	425,000

IASA has paid no additional dividends.

Membership Services Administration (U.K.) Limited

MSA was incorporated on October 25, 1988. 99 of MSA's 100 outstanding shares are held directly by IASA; the other MSA share is held jointly by IASA and IASA's president, Janet Light, to comply with UK corporate law. MSA has paid no dividends.

Flow of Funds Between IAS and Its Incorporated Service Arms

Certain IAS expenses are paid directly from IAS bank accounts, principally bank and credit card charges and professional fees (attorneys and accountants). Some fundraising commissions also are paid directly from IAS accounts, and in the past, annual convention expenses also were paid directly from IAS accounts.

Most IAS administrative expenditures, however, are made through its incorporated service arms -- TML, IASA and MSA. During the years 1989-1991, IAS funds initially were disbursed to TML. TML then disbursed funds to IASA as necessary for administrative functions carried out by IASA. IASA likewise then disbursed funds to MSA as necessary for administrative functions carried out by MSA. Beginning in 1992, IAS began disbursing funds directly to IASA rather than through TML. MSA funds still are disbursed indirectly through IASA.

Analysis of Financial Money Flows

Attached as Exhibit IV-6 is Exhibit I-9 data for IAS, TML, IASA and MSA for the years 1989-1991 presented in the same manner as financial information about Churches of Scientology and related organizations was submitted previously to the Service.

Question 7

7. Please describe IAS's grant-making procedures.

The IAS regularly receives requests from churches of Scientology and Scientology-related organizations for funds to advance and protect the Scientology religion and to further the purposes of Scientology, and for social reform programs supported by the Scientology religion. As a matter of Scientology policy, grant requests from Scientology organizations and individual Scientologists usually are submitted in the form of a CSW (Completed Staff Work). The Policy on CSWs may be found in Volume O of the Organization Executive Course.

During its early years, as part of the division of responsibility among the members of the IAS Board, grant requests were generally forwarded to one Board member (M. Brigatti) who would review the grant request and submit it with her own recommendations to the full Board. Ms. Brigatti did not have the authority to make or reject grant requests on her own. All requests were submitted to the full Board.

Beginning in 1989, IAS requested IASA review all grant requests before forwarding them to the IAS Board to ensure all necessary data was included and to secure additional information as needed. If there are many different grant requests pending from different Churches of Scientology at the same time, IASA may liaise with Church of Scientology International executives to inquire if there are priorities to the requests. This information would then be included in a submission of grant requests to the Board.

The Board of IAS, from time to time, authorizes IASA to approve small grants (under \$50,000) directly so long as the request aligns with the purposes of the IAS and information regarding all grants promptly is presented to the Board. This practice is not in effect at this time.

The primary criteria used by the IAS Board when approving any grant request is that the funds be used for a purpose within the purpose of the International Association of Scientologists: "To advance, protect and defend the Religion of Scientology and to assist, protect and defend its members throughout this planet." The Board also considers whether the proposed expenditure is of a type that might better be funded from another source -- e.g., a Church of Scientology or a Scientology support trust.

Question 8

8. Please explain why you believe Bridge Publications, Inc. and New Era Publications International ApS qualify for tax exemption under Section 501(c)(3).

FACTS

The Scientology religion is based on the research, writings, and recorded lectures of L. Ron Hubbard. These materials constitute the Scriptures of the religion and encompass over 300 books, hundreds of course material packs, thousands of individual policy letters and issues, over 3,000 taped lectures, 42 filmed lectures or demonstrations by Mr. Hubbard and approximately 100 films written by Mr. Hubbard to disseminate the religion and to train ministers in the application of Scientology principles and technology. As mother church of the Scientology faith, Church of Scientology International (CSI) is responsible for ensuring the availability of the Scriptures to Scientologists world-wide.

CSI fulfills this duty through an international network of publishing organizations operated exclusively in furtherance of Scientology religious purposes. The international publishing network consists of two primary organizations, Bridge Publications, Inc. (Bridge), and New Era Publications International ApS (NEP) and its subsidiaries.

Bridge, a California corporation, publishes and distributes religious books and other written scriptural materials in the United States and Canada.^{1/} It also publishes and distributes Mr. Hubbard's fictional works in these countries. It has a staff of approximately 70 individuals and an annual budget of approximately \$24 million, based on its annual disbursements for the most recent year for which financial statements are available. International Publications Trust (IPT), a religious trust organized for the exclusive purpose of disseminating Scientology religious practice and faith, owns all of Bridge's outstanding stock.

NEP, a Danish corporation, publishes and distributes religious books and other written Scriptural materials in countries other than the United States and Canada. It also publishes and distributes Mr. Hubbard's fictional works in these countries. It has a staff of approximately 88 individuals and a budget of approximately \$35 million, based on its consolidated annual disbursements for the most recent year for which financial

^{1/} For the most part, Bridge contracts out actual printing of books.

statements are available. IPT owns all of NEP's outstanding stock. NEP has several wholly owned subsidiaries which undertake its publishing and distribution activities in certain countries where the scale of its operations or other feasibility concerns require a local organization. These subsidiaries have modest staffs and are located in the United Kingdom, Italy, Germany, France, Japan, Spain, Australia and Israel.^{2/}

Bridge and NEP have always operated exclusively for religious purposes. In 1988, Bridge and NEP amended their organizational documents to adopt provisions comporting with the organizational test of section 501(c)(3).^{3/} However, since NEP's Danish counsel believed that references to United States statutory provisions would be difficult or impossible to enforce in Denmark, NEP's provisions define rather than refer to section 501(c)(3). These amendments merely memorialized past and existing practices. Neither organization has ever made any distribution of dividends or net earnings or paid any unreasonable compensation.

Bridge and NEP work in connection with and under the direct supervision of CSI staff personnel responsible for disseminating the Scriptures throughout the world. Pricing for Scriptural materials is set by CSI or under its close scrutiny. Scientology ecclesiastical policy requires that prices: (1) be affordable to a broad segment of the general public; (2) enable the churches and publishing organizations to recover their costs of production or delivery; and (3) produce a sufficient return to enable the publisher or church to remain operational so it can continue performing its dissemination function, replenish stocks if necessary, and expand to minister to and provide for an ever growing congregation.

In general, NEP and Bridge distribute their religious publications directly to Scientology churches for distribution in bookstores usually located in the lobby or reception area of Scientology churches. These church bookstores have primary responsibility for disseminating Scientology Scriptures and other religious material to church parishioners.

NEP and Bridge sell introductory Scriptural texts such as Dianetics: The Modern Science of Mental Health and Scientology: The Fundamentals of Thought and Mr. Hubbard's fictional works through commercial retailers, but sales are limited. The

^{2/} The Israeli subsidiary has no staff members and is dormant.

^{3/} The Bridge amendments separately satisfy the requirements of section 508(a).

objective of these limited sales through commercial retailers is to create interest in Mr. Hubbard's works and thereby to disseminate the religion. Since readers tend to follow the works of authors they enjoy, crossover readership often interests the reader in Scientology. For example, several of Mr. Hubbard's novels were released in 1986 and made the New York Times Bestseller List. As a result, sales of Dianetics: The Modern Science of Mental Health and Scientology: The Fundamentals of Thought and other Scriptural material jumped sharply in the late Winter and early Spring of 1987.

Sales of Mr. Hubbard's fictional work constitute a very small portion of Bridge's and NEP's total sales and result in no net profit. Gross revenue from sales of Mr. Hubbard's fictional works in 1992 amounted to approximately 8% of Bridge's total gross revenue: gross revenue from sales of religious works amounted to approximately 92%. NEP's gross revenue split (exclusive of its subsidiaries) is less than 1% for fiction and greater than 99% for religious works.

Expenditures by Scientology-affiliated organizations for religious and social betterment programs dwarf net revenues from the publication organizations' operations on a year-by-year basis. For example, in 1989, Bridge's and NEP's combined net revenue from publication (exclusive of NEP's subsidiaries) was barely \$1.5 million.⁴ Focusing solely on CSI, disbursements in the same year for CSI's religious program amounted to \$46.8 million.

LEGAL ANALYSIS

Section 1.501(c)(3)-1(e), Income Tax Regs., provides:

In General. An organization may meet the requirements of section 501(c)(3) although it operates a trade or business as a substantial part of its activities, if the operation of such trade or business is in furtherance of the organization's exempt purpose or purposes and if the organization is not organized or operated for the primary purpose of carrying on an unrelated trade or business, as defined in section 513.

The regulations plainly permit organizations to retain their exemption while engaging in a trade or business, so long as these operations are related to their exempt purpose. The legislative history of the Code provisions on unrelated business income makes

⁴ NEP's net revenue for 1989, determined on a consolidated basis, amounted to 2.480.171 Danish kroner. The exchange rate on December 31, 1989, was 6.6 kroner to the dollar.

clear that this concept applies to the publication of religious materials, so long as the activity is carried on in connection with a church. When Congress decided to subject churches to the unrelated business income tax in 1969 the House Ways and Means Committee issued a report targeting businesses operated by religion in competition with commercial entities, including religious bookstores. See H.R. Rep. No. 413, 91st Cong., 1st Sess. 47 (1969). In a written statement to the Senate Finance Committee, William Consedine, General Counsel of the United States Catholic Conference, warned that seemingly ordinary business activities, particularly publishing, may actually be a way of carrying out traditional church functions, such as proselytism, which should not be subject to tax:

The Joint Statement of the National Conference of Churches and the United States Catholic Conference contained a request the unrelated business income be defined in such a way that it does not include any activity related directly or indirectly to the tenets and traditional functions of the church including especially cemeteries, institutions for the care and training of the unfortunate, print and distribution of religious publications with or without advertising, fundraising activities and the sale under church auspices of religious articles and pamphlets.

For example, in justifying the need for extending the tax on unrelated business income to include churches, the House Committee Report, on page 47, cites as an example of a business activity of a church, the operation of a chain of "religious bookstores." We submit that the printing, distribution and sale of religious publications is a related function of a church. The mere fact that a profit-making, non-religious corporation may be engaged in the same activity in competition with a church does not alter the fundamental fact that a church which seeks to spread a religion and the Word of God through the printing and sale of religious books is truly engaged in a related, religious function.

Tax Reform Act of 1969: Hearings Before Senate Finance Committee, 91st Cong., 1st Sess. 2108-09 (1969) (Statement of William E. Consedine, General Counsel, United States Catholic Conference) (emphasis added).

Congress addressed each of these concerns. In extending the UBIT to churches, it specifically exempted business activities with special religious significance "carried on in connection with" a church from the UBIT:

In the case of churches, the committee intends that the term unrelated business income does not include the operation and maintenance of cemeteries, the conduct of charitable institutions, the sale of religious articles and the printing, distribution and sale of religious pamphlets, tracts, calendars, papers, books and magazines with a substantial religious content (even though the document might contain a small amount of advertising,) as long as these activities are carried on in connection with the church.

S. Rep. No. 552, 91st Cong., 1st Sess. 71 (1969), reprinted at 1969-3 C.B. 469.

Congress' clear intent was that the sale of religious articles and books constitutes a business activity related to the exempt purposes of a church so long as it is "carried on in connection with the church." Congress did not impose any special requirement on these activities other than that literature have "substantial religious content." So long as publication of religious materials is connected to a church and the published materials have substantial religious content, the business activity will be inherently related to exempt religious purposes.

The courts have had ample opportunities to address the exempt qualification of organizations that publish religious materials.^{5/} The cases fall into two classes: (1) cases involving a publishing organization, the sole activity of which is the publication of religious materials and which is not

^{5/} See, e.g., Presbyterian and Reformed Publishing Co. v. Commissioner, 743 F.2d 148 (3d Cir. 1984), rev'g 79 T.C. 1070 (1982); Elisian Guild, Inc. v. United States, 412 F.2d 121 (1st Cir. 1969); Scripture Press Foundation v. United States, 285 F.2d 800 (Ct. Cl. 1961), cert. denied, 368 U.S. 985 (1962); Christian Manner International, Inc. v. Commissioner, 71 T.C. 661 (1979); Pulpit Resource v. Commissioner, 70 T.C. 594 (1978); Saint Germain Foundation v. Commissioner, 26 T.C. 648 (1956), acq., 1956-2 C.B. 8; Alive Fellowship of Harmonious Living, T.C. Memo. 1984-87; A.A. Allen Revivals, Inc. v. Commissioner, T.C. Memo. 1963-281; Incorporated Trustees of the Gospel Worker Society v. United States, 510 F.Supp. 374 (D.D.C. 1981), aff'd without opinion, 672 F.2d 894 (D.C. Cir. 1981), cert. denied, 456 U.S. 944 (1982); Fides Publishers Ass'n v. United States, 263 F.Supp. 924 (1967).

affiliated, either formally or informally, with any particular church⁶, and (2) cases involving an organization whose publishing activities are a related religious function through their connection to a church.⁷ Organizations described in the second class fall within Regulations Section 1.501(c)(3)-1(e)(1), because publication of religious materials is carried on in connection with a church. Organizations described in the first class, unaffiliated with a specific church or religious denomination, do not come within the regulations, and cases involving them are uniformly distinguishable on this basis.

The distinction between the two classes was clearly drawn in the two decisions in Presbyterian and Reformed Publishing. In the lower decision, the Tax Court viewed the petitioner as a wholly independent organization and found that its sole activity was publishing religious materials. The court concluded that the petitioner had transformed into a nonexempt concern. Id. at 1083-87. In reaching this conclusion the court stated:

Further, petitioner was not affiliated or controlled by any particular church organization and this nondenominational character "contributes to the resemblance between its publishing activities and those of commercial, nonexempt publishers of Christian literature with whom * * * [it] competes."
Incorporated Trustees of the Gospel Worker Society v. United States, supra at 379 n. 16.

Id., 79 T.C. at 1086.

On appeal, the Third Circuit noted that the Tax Court appeared to have ignored evidence that the publishing organization was related to another organization with a substantial religious program. It, therefore, assumed that the lower court had refused to impute the exempt activities of the closely related religious organization in the absence of evidence of formal affiliation. Id., 743 F.2d at 156. Whether formally affiliated or not, in the Third Circuit's view, the publishing organization's close relationship to another organization with a

⁶ Elisian Guild, Scripture Press, Presbyterian and Reformed (opinion of the Tax Court), Christian Manner International, Pulpit Resource, Incorporated Trustees of the Gospel Worker Society, Fides Publishers Ass'n

⁷ Presbyterian and Reformed (opinion of the Court of Appeals for the Third Circuit), Saint Germain Foundation, Alive Fellowship of Harmonious Living and A.A. Allen Revivals, Inc.

substantial religious program was sufficient to guarantee its exemption, see id., despite its resemblance to the typical commercial religious publisher in most, if not all, other respects. 79 T.C. at 1086. Thus, as long as a publishing organization's activities are related to a church, exemption will follow. Id. Accord, St. Germain Foundation, supra (Sale of religious literature by affiliated publishing organization was related to church's religious program; therefore, organization was exempt); Alive Fellowship of Harmonious Living, supra (Church was exempt where its sale of religious literature was related to its religious program); A.A. Allen Revivals, Inc., supra (Church was exempt where its sale of religious literature was related to its religious program). Bridge's and NEP's publication activities are conducted exclusively for the advancement of Scientology. Accordingly, Bridge's and NEP's publishing activities are clearly carried on in connection with a church, and their publishing activities are undertaken exclusively for exempt purposes.^{8/}

Bridge and NEP clearly fall into the second class: they are closely affiliated with Church of Scientology International and all other Scientology religious organizations. Their sole function is to publish material critical for the practice of the Scientology religion for the benefit of the churches and their parishioners, and they perform their functions under CSI's direct supervision and control. Unlike the publishing organization in Presbyterian and Reformed and Incorporated Trustees, BPI and NEP are both affiliated and controlled by CSI and are exclusively of one denomination. Their publishing activities are crucial to the Scientology religion and, thus, must be viewed in relation to the religion as a whole.

^{8/} The publication of Mr. Hubbard's fictional works is not unrelated to Scientology's religious program, because it serves as a means of introduction for new parishioners.

Question 9

9. Will the advance donation trusts continue to exist if the United States churches of Scientology are recognized as tax-exempt?

In accordance with the Scientology Scriptures, Church of Scientology parishioners often make fixed donations to their churches in connection with specific religious services or religious materials in advance of the time they participate in the services or obtain the religious materials. Such donations are referred to as "advance donations" or "advance payments."

Trust for Scientologists ("TFS") and United States Parishioners Trust ("USPT") are the two trusts presently used to hold and safeguard parishioners' advance donations to CSFSO and CSWUS. These advance donation trusts were created and used for two purposes: (1) to protect parishioners' advance donations from specious damage claims against the churches, and (2) in the event that CSFSO and/or CSWUS were held taxable, to allow them to defer income taxation on parishioner advance donations until earned through the ministry of religious services.^{1/}

Church management believes that if settlement of all outstanding IRS matters is reached, specious damage suits will no longer be a significant problem for the simple reason that recognition of exemption will serve to weaken existing damage cases and to deter future cases. As part of the settlement of all outstanding Church of Scientology matters with the IRS, the trustees and churches are willing to dissolve TFS and USPT and distribute amounts held therein to CSFSO and CSWUS, to be held, subject to their obligation to minister religious services to the contributing parishioners, as part of those churches' own separate reserves.

TFS can be dissolved immediately upon recognition of exemption. Pursuant to article 20 of the USPT declaration of trust, however, USPT cannot be dissolved until December 16, 1993, five years after its creation; upon recognition of exemption CSFSO, CSWUS and the trustees of USPT will agree to dissolve USPT promptly in December 1993 and to implement whatever reasonable safeguards the Service believes may be necessary in the interim.

^{1/} In the CSC case, the Tax Court held that CSC was taxable on unused parishioner advance donations, relying principally on the absence of a method, like the trusts, to segregate these sums from other church assets. Church of Scientology of California v. Commissioner, 83 T.C. 381, 481-483 (1984) aff'd, 823 F.2d 1310 (9th Cir. 1987), cert. denied 486 U.S. 1015 (1988).

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.

QUESTION 11

11. Please identify the for-profit corporations that participate in the Church of Scientology's central reserves system.

The entities organized as for-profit corporations participating in the Central Reserves system include:

NEP
BPI
FSO OIC
SAN DONATO PROPERTIES
MAJESTIC CRUISE LINES, INC

In addition, the following entities' reserves are monitored by the International Finance Office within CSI:

TRANSCORP SERVICES
SOR SERVICES LTD

Each of these entities is owned directly or indirectly by a Church or a Church reserves trust as detailed in our prior responses. Each entity has its own corporate bank accounts. Funds of each entity are separately banked and are not commingled with funds of any other entity. The transactions from each entity's bank accounts are included and reported in its own respective financial statements.

While FSO OIC is considered a reserves entity because it holds assets which are part of central reserves, it has no current income and is endeavoring to sell its remaining assets. FSO OIC has no cash reserves nor any bank account denominated a Reserve account. It currently has bank balances of \$978.

QUESTION 12

12. Please explain why you believe Church of Spiritual Technology qualifies as a "church" described in Code section 170(b)(1)(A)(i)

At our meeting of April 28, 1993, Service representatives expressed concern over whether Church of Spiritual Technology ("CST") qualified as a "church" under relevant Code provisions. The basis for the Service's concern is not entirely clear; the Service appears to be relying on dicta from the Claims Court decision on CST's exempt status.^{1/} As discussed below in detail, under the governing authorities CST clearly qualifies as a church for purposes of the relevant Code provisions.^{2/}

Neither the Code, the regulations, the Service's rulings nor the case law specifically define the term "church." It is clear, however; that Congress intended the term "church" to have a narrower, more restrictive meaning than the term "religious organization."^{3/} For at least 35 years the Service has employed a "facts and circumstances" test in determining an organization's church status, looking at the following criteria:

1. a distinct legal existence;
2. a recognized creed and form of worship;
3. a definite and distinct ecclesiastical government;
4. a formal code of doctrine and discipline;
5. a distinct religious history;

^{1/} Church of Spiritual Technology v. United States, 26 Cl. Ct. 713, 731 n.36 (1992), aff'd per curiam, 1993 U.S. App. LEXIS 7023, reh'g denied (Fed. Cir. 1993).

^{2/} See, e.g., Code §§ 170(b)(1)(A)(i), 508(c)(1)(A), 3121(w), 6033(a)(2)(A)(i).

^{3/} Spiritual Outreach Society v. Commissioner, 927 F.2d 335, 338 (8th Cir. 1991), aff'g T.C. Memo 1990-41 (quoting Church of the Visible Intelligence That Governs the Universe v. United States, 4 Cl. Ct. 55, 64 (Ct. Fed. Cl. 1983)).

6. a membership not associated with any other church or denomination;
7. an organization of ordained ministers;
8. ordained ministers selected after completing prescribed studies;
9. a literature of its own;
10. established places of worship;
11. regular congregations;
12. regular religious services;
13. Sunday schools for religious instruction of the young; and
14. schools for the preparation of its ministers.

Internal Revenue Manual 7(10)69, Exempt Organizations Examination Guidelines Handbook, §321.3(3) (Apr. 5, 1982). In addition, the Service will consider "[a]ny other facts and circumstances which may bear upon the organization's claim for church status." Id., §321.3(3)(o).^{4/} In varying degrees, these criteria have been accepted and applied by the courts as well.^{5/}

^{4/} General counsel memoranda state that the Service first used these criteria in the late 1950s to determine that the Salvation Army qualified as a church. See Rev. Rul. 59-129, 1959-1 C.B. 58. The criteria were publicly revealed in a 1978 speech by IRS Commissioner Kurtz and were formalized in the Internal Revenue Manual in 1982. See G.C.M. 38699 (Apr. 23, 1981).

^{5/} Most courts appear to have accepted the Service's 14 church criteria in toto. See Spiritual Outreach Society, 927 F.2d at 338; United States v. Jeffries, 854 F.2d 254, 258 & n.1 (7th Cir. 1988); Lutheran Social Service of Minnesota v. United States, 758 F.2d 1283, 1286-87 (8th Cir. 1985), aff'g 583 F. Supp. 1298 (D. Minn. 1984); Tennessee Baptist Children's Homes, Inc. v. United States, 604 F. Supp. 210, 212 n.4 (M.D. Tenn. 1984), aff'd on other grounds, 790 F.2d 534 (6th Cir. 1986); Williams Home, Inc. v. United States, 540 F. Supp. 310, 317 (W.D. Va. 1982); American Guidance Foundation, Inc. v. United States, 490 F. Supp. 304, 306 & n.2 (D. D.C. 1980); Church of the Visible Intelligence, 4 Cl. Ct. at 64. The Tax Court, while not accepting the 14 criteria as a determinative test, treats these criteria as "helpful in deciding what is essentially a fact test." Foundation of Human Understanding v. Commissioner, 88 T.C. 1341, 1357-58 (1987).

CST qualifies as a church under the Service's 14 criteria test. As a religious organization espousing and practicing the Scientology faith, CST plainly has a distinct religious creed, form of worship, code of doctrine and discipline, history, literature and membership.^{4/} CST has established places -- training and auditing rooms -- for conduct of religious services. Through four full-time clergy, CST provides regular religious services for its members, who must spend a minimum of twelve and one half hours each week in religious services. CST also ordains ministers who must complete prescribed course of study and who are members of the Sea Organization. CST has its own distinct ecclesiastical government, with its own structure for conduct and supervision of religious services, counselling and discipline.

^{4/} Although there is no policy or Scriptural mandate expressly requiring Scientologists to renounce other religious beliefs or membership in other churches, as a practical matter Scientologists are expected to and do become fully devoted to Scientology to the exclusion of other faiths. As Scientologists, they are required to look only to Scientology Scripture for the answers to the fundamental questions of their existence and to seek enlightenment only from Scientology. Thus, a Scientologist who grew up in the Jewish faith who continues formal membership in his synagogue and attends services with his family violates no Scientology policy or tenet. On the other hand, such a person is not permitted to mix the practices of his former faith into his practice and understanding of Scientology so as to alter orthodox Scientology in any way.

In any event, the failure of an organization to require disassociation from other religious faiths would not be determinative. Foundation of Human Understanding, 88 T.C. at 1359; G.C.M. 36993 (Feb. 3, 1977) (Members "need not abandon their affiliation with other churches"); PLR 8833001 (May 2, 1988).

Being separately incorporated, CST necessarily has a distinct legal existence from other churches of Scientology. CST thus possesses more of the 14 church criteria than other organizations that have been recognized as churches,^{7/} and, indeed, possesses substantially all of the criteria.

The Claims Court's "conclusion" that CST was not a church was plainly dicta: the IRS had never ruled on CST's church status, CST did not raise its church status in its complaint, and neither CST nor the Department of Justice developed the issue in their briefs. CST's status as a church was never before the court; if it had been, CST would have had the opportunity to establish each of the 14 relevant factors.

Moreover, the court's "conclusion" is contrary to the facts, the law and common sense. The court's view that CST lacked all of the 14 church criteria but separate legal existence is ludicrous: This conclusion implies that CST must possess doctrines, beliefs and practices distinguishable from the rest of the Scientology faith; such an absurd reading of the 14 church criteria would preclude any Catholic parish, any Mormon ward, or any other subordinate entity of a hierarchical religious denomination from ever qualifying as a "church" for tax purposes.^{8/}

^{7/} See, e.g., Foundation for Human Understanding, 88 T.C. at 1359-60 (organization did not possess a formal code of doctrine and discipline or a definite ecclesiastical government, did not maintain facilities for the preparation of ministers, did not require adherents to reject membership in other churches and did not provide for the religious instruction of the young except as part of its general education curriculum); Purnell v. Commissioner, T.C. Memo 1992-289, 63 T.C.M. (CCH) 3037 (organization did not have a distinct legal existence, definite and distinct ecclesiastical government, an organization of ordained ministers, or schools for the preparation of its ministers; in addition, there was no evidence of religious instruction for the young); G.C.M. 36993 (organization lacked an established place of worship, an established congregation, provisions for religious instruction of the young and schools for the preparation of its ministers; in addition, it did not require adherents to abandon other religious affiliations).

^{8/} The Claims Court's implicit view that CST cannot draw any of its church attributes from Scientology generally is fundamentally inconsistent with its view that CST's tax status could be evaluated only in connection with the rest of Scientology. This is but one more patent discrepancy in the Claims Court's thoroughly irrational, unprincipled decision.

The Claims Court based its objection to recognizing CST as a church on what recent Tax Court precedent characterizes as the "associational test" for church status.^{9/} Citing Church of Eternal Life, the Claims Court "concluded" that CST "is not 'a coherent group of individuals and families that join together to accomplish the religious purposes of mutually held beliefs.'" 26 Cl. Ct. at 731 n.36. The Claims Court's dicta wholly misreads the relevant authorities on the "associational" test and ignores the true nature and scope of religious services ministered by CST clergy to its members.

First, much of the case law involving the "associational" test must be read in context: references in some of the case law to the regular assembly of adherents in order to worship^{10/} cannot be taken literally; otherwise, the "associational" test would become an impermissible denominational preference for congregational worship. Indeed, these cases all involved instances where either groups of individuals did not assemble (in the case of sham "mail order" or "single family" churches) or the coming together was truly incidental to the organization's ministry (in the case of radio broadcasters). The Tax Court clearly characterized the associational test more broadly than the Claims Court quoted in Church of Eternal Life:

A church is a coherent group of individuals and families that join together to accomplish the religious purposes of mutually held beliefs. In other words, a church's principal means of accomplishing its religious purposes must be to assemble regularly a group of individuals related by common worship and faith. As stated by Tannenwald, J., concurring in Chapman [48 T.C. 358 (1967)]:

^{9/} See, e.g., Foundation of Human Understanding, 88 T.C. at 1360-61; Church of Eternal Life and Liberty v. Commissioner, 86 T.C. 916, 924-25 (1986); Spiritual Outreach Society v. Commissioner, 58 T.C.M. (CCH) 1284, 1286-87. In affirming the Tax Court's decision in Spiritual Outreach Society, the Court of Appeals specifically declined to address the Tax Court's "associational" test, 927 F.2d at 338, finding that the organization failed to qualify as a church under the Service's published 14 criteria. 927 F.2d at 338-39.

^{10/} See, e.g., American Guidance Foundation, 490 F. Supp. at 306; Church of the Visible Intelligence, 4 Cl. Ct. at 65.

The word "church" implies that an otherwise qualified organization *bring people together as the principal means* of accomplishing its purpose. The objects of such gatherings need not be conversion to a particular faith or segment of a faith nor the propagation of the views of a particular denomination or sect. The permissible purpose may be accomplished individually and privately * * * but it may not be accomplished in physical solitude. *
* * [48 T.C. at 367; emphasis in original.]

To qualify as a church, an organization must serve an associational role in accomplishing its religious purpose.^{11/}

The other authorities likewise take a broader view of the nature of the associational role an organization must fill to qualify as a church.^{12/} While Church of Eternal Joy and Judge Tannenwald's concurring opinion in Chapman suggest that the associational role must be primary, the later court-reviewed opinion in Foundation of Human Understanding makes clear that the associational role need only be more than incidental:

[D]espite the breadth of petitioners' broadcasting and publishing efforts, its associational aspects are much more than incidental. We hold that petitioner has sufficient associational aspects to be considered a church.^{13/}

^{11/} 86 T.C. at 924.

^{12/} See, e.g., Spiritual Outreach Society v. Commissioner, 58 T.C.M. at 1286 ("[A] church is a cohesive group of individuals who join together to accomplish the religious purposes of mutually held beliefs."); *id.* at 1287 ("the cohesiveness factor * * * is an essential ingredient of a 'church.'"); G.C.M. 38982 (May 3, 1983) ("[I]t does not appear that the Foundation has promulgated its doctrines by functioning as a church as that term is commonly understood; for example by ministering directly to people who are part of a body of interrelated believers who participate and interreact [sic] in various ways as members of a congregation, parish, or like group. . . .").

^{13/} 88 T.C. at 1360-61 (citations omitted).

All but five of the participating judges joined the majority opinion holding the petitioner to be a church;^{14/} only two of the participating judges would have concluded that the organization was not a church.^{15/}

Under these authorities, it is clear that CST has "sufficient associational aspects to be considered a church." CST's staff, which constitutes its congregation, has totaled no fewer than 34 members since early in its existence and has in the past been fully staffed at 70 or more. CST's parishioners also regularly assemble -- both in pairs, where they participate in the sacrament of auditing, and in much larger groups where they participate in training. Organizations with smaller memberships have been accorded church status.^{16/}

Nor is CST's ministry of religious services to its staff "incidental to its chief stated function of creating an archives," as the Claims Court erroneously concluded. As members of the Sea Organization, all CST members must devote at least twelve and one half hours weekly to religious activities -- auditing, training and study. These activities are not "accomplished in physical solitude;"^{17/} members audit in pairs and

^{14/} 88 T.C. at 1361.

^{15/} 88 T.C. at 1366-69 (Simpson, J., dissenting in part, joined by Judge Sterrett). (Judge Sterrett is no longer on the court, and Judge Simpson has assumed senior status, which means he is no longer entitled to vote in court-reviewed decisions.) Judge Wells concurred in the substantive result. Id. at 1361. Judges Chabot and Williams dissented on the jurisdictional issue and did not reach the substantive issue of the organization's status as a church. Id.; id. at 1369-84. Judge Gerber did not participate. Id. at 1361.

^{16/} See, e.g., Purnell v. Commissioner, 63 T.C.M. at 3037-3 ("While the congregation of the Kingdom is small, it does consist of persons other than members of the Purnell family."); PLR 8833001 ("The organization has a regular congregation of between eight and twenty people."). In addition, the Zen Meditation Society, Inc. from Baltimore, recently recognized as an exempt church and discussed with the Service in connection with the charitable contribution issues, likewise had no more than 40 members.

^{17/} Chapman, 48 T.C. at 367 (Tannenwald, J., concurring).

generally train in large groups. CST has four full-time staff members whose positions involve only the ministry of religious services to CST staff members, more full-time clergy than other organizations that have been recognized as churches.^{18/} CST members have regular weekly services, in the same manner as other churches of Scientology, and celebrate all major church holidays;^{19/} visiting Scientologists are welcome to participate in these activities. Based on a normal sixty hour work week, 30 percent or more of CST's staff time is devoted solely to religious activities.^{20/} The level and scope of CST's sacerdotal and sacramental activities thus cannot be considered to be incidental in either absolute terms or relative to CST's archival activities.

We have previously noted that the public benefit necessary to warrant special tax benefits for churches must flow not from the subsidy of religion but from the non-religious benefits to society from organized religion -- morality, community and personal responsibility, benevolence, and so forth.^{21/} These public benefits flow from the associational aspects of organized religion, namely "join[ing] together" to implement in society at large the "religious purposes of mutually held beliefs" of "a cohesive group of individuals." CST fills the requisite associational role through its community and public benefit activities, in the same manner as other churches of Scientology. CST as an entity, and CST executives and staff individually and

^{18/} PLR 8833001 (organization appears to have had only one minister, who also was engaged in running his construction business). The Zen Meditation Society, Inc. from Baltimore recently recognized as an exempt church, discussed in connection with the charitable contribution issues, likewise had only one person serving a ministerial role.

^{19/} Major Scientology holidays include Mr. Hubbard's birthday (March 13), Dianetics Day (May 9), Sea Org Day (August 12), Auditors Day (September 12) and the IAS anniversary (October 7).

^{20/} (1) 12.5 hours per week times 30 staff not assigned to clerical duties plus (2) 60 hours per week times 4 staff assigned to clerical functions plus (3) 34 staff times 1 hour per week for weekly services, (4) divided by 34 staff equals (5) 19.1 hours per week per staff member, (6) divided by 60 hours per week equals 31.8 percent.

^{21/} See Memorandum entitled "Section 170, Hernandez, and Quid Pro Quo," dated March 15, 1993 at pages 24-25.

collectively, participate fully in community activities such as local historical and historic preservation societies, volunteer fire departments, anti-drug campaigns and local disaster relief efforts.^{22/} CST's religious activities for its members and other membership and public and its community benefit activities fulfill the requisite associational role at least as fully if not more than the organization held to be a church in Foundation of Human Understanding.^{23/}

Although not so articulated, both the Claims Court and the Service appear to believe that an organization cannot fulfill the requisite associational role if its membership does not extend beyond its staff. There is no authority for such an interpretation, nor does such an interpretation reflect common understanding of the term church.^{24/} The associational test for church status arose in the context of potentially abusive

^{22/} CST's community and public benefit activities differ from those of other Scientology churches only because CST's facilities are in or near relatively remote rural communities rather than large metropolitan areas.

^{23/} In Foundation of Human Understanding, an overwhelming majority of the judges found an organization satisfying many fewer of the "church" criteria than CST to possess "sufficient associational aspects" to qualify as a church. 88 T.C. at 1361. There, while the organization's regular congregation varied from 50 to 350 persons, its religious publications had a readership of over 5,000, and its religious radio broadcasts had a regular listening audience of 30,000 while reaching as many as 2 million potential listeners. Id. at 1360. Upon these facts, an overwhelming majority of the judges found the organization's associational aspects to be "much more than incidental." Id. at 1361.

^{24/} In De La Salle Institute, the court stated (195 F. Supp. at 903) that "Congress must either define 'church' or leave the definition to common meaning and usage of the word." Although this definition has been criticized as unduly narrow "given the plurality of religious beliefs in this country," Foundation of Human Understanding, 88 T.C. at 1356, the term church certainly includes at a minimum those entities so recognized under common meaning and usage.

"single-member" or "single-family" churches^{25/} and "mail order" churches,^{26/} which CST plainly is not. None of the relevant authorities suggests that a membership like CST's cannot constitute "a cohesive group of individuals who join together to accomplish the religious purposes of mutually held beliefs,"^{27/} or "a body of interrelated believers who participate and interreact [sic] in various ways as members of a congregation, parish, or like group."^{28/} The facts clearly indicate this is precisely what CST does, thereby fulfilling the requisite associational role.

The implicit premise that a church cannot limit its membership to staff would mean, contrary to governing law, that no religious order could ever qualify as a church. While the religious order before the court in De La Salle Institute did not perform sufficient sacramental and sacerdotal functions to satisfy the requisite associational role, this does not mean that no religious order or similar organization can ever so qualify. Relevant Treasury regulations provide exactly the contrary:

The term "church" includes a religious order or a religious organization if such order or organization (a) is an integral part of a church and (b) is engaged in carrying out the functions of a church, whether as a civil law corporation or otherwise. * * * A religious

^{25/} American Guidance Foundation, 490 F. Supp. at 307; Church of the Visible Intelligence, 4 Cl. Ct. at 65 ("If membership does not extend beyond [the founder's] immediate family, it would appear that plaintiff is engaged in a private religious enterprise, rather than a church."); Church of Ethereal Joy, 86 T.C. at 924-25 ("Petitioner has had only two members since its formation. . . . Petitioner * * * seems to have intentionally pursued a policy that discouraged membership for reasons, we believe, that served the private purposes of its founder."); Purnell, 63 T.C.M. at 3037-4 to 3037-5 ("[T]he Kingdom is more than a one-family church."); Universal Bible Church v. Commissioner, T.C. Memo 1986-170, 51 T.C.M. (CCH) 936, 939 ("The record * * * does not clearly indicate whether there are any members beyond the trustees," all but one of whom were siblings).

^{26/} Universal Bible Church, 51 T.C.M. at 939 (All three pastors had been ordained by Universal Life Church).

^{27/} Spiritual Outreach Society v. Commissioner, 58 T.C.M. at 1286.

^{28/} G.C.M. 38982 (May 3, 1983) (emphasis added).

order or organization shall be considered to be engaged in carrying out the functions of a church if its duties include the ministration of sacerdotal functions and the conduct of religious worship. * * * What constitutes the conduct of religious worship or the ministration of sacerdotal functions depends on the tenets and practices of a particular religious body constituting a church.

Treas. Reg. §1.511-2(a)(3)(ii) (emphasis added).^{29/} Where, as here, CST performs significant sacramental and sacerdotal functions, far more than incidental either in an absolute sense or in relation to its other exempt religious functions (archival), it satisfies a sufficient associational role to qualify as a church.

Finally, another thread running through the various church authorities, perhaps building upon the "fifteenth" criterion of other relevant facts and circumstances, is the potential for abuse:

A consideration of the facts and circumstances demands a determination of whether abuse or potential non-religious motivation is present. It should be noted that his [sic] organization is distinguishable from those "religions" which involve inurement or private benefit prohibited by section 501(c)(3). . . .

Therefore, because the majority of the American Guidance Foundation criteria are present, and because the facts and circumstances show that the organization was created and is operated for other than tax-

^{29/} These regulations were issued and apply for taxable years during which churches were not subject to unrelated business income tax. Although the regulations are not formally cited, this same definition appears in relevant Internal Revenue Manual provisions defining the term "church." Internal Revenue Manual 7(10)69, Exempt Organizations Examination Guidelines Handbook, §321.1(2) (Jan. 15, 1981).

avoidance reasons, the organization qualifies as a church within the meaning of section 170(b)(1)(A)(i).³⁰

Thus, abuse potential serves as an informal "tiebreaker" in close cases, with religious organizations lacking potential abuse given the benefit of the doubt and accorded church status.

As discussed above, CST believes that its case for church status is not a close one and, in fact, is far stronger than that of many organizations so recognized by the Service and/or the courts. CST is not in any sense a sham church established solely for tax or other non-religious purposes. Nor is there any potential private inurement or benefit from CST's religious activities. In financial terms, CST's staff is compensated extremely modestly. There has never been the slightest hint of any private inurement of CST's earnings. And now that the Service is prepared to recognize the exempt status of churches in the Scientology ecclesiastical hierarchy, there is no issue of private benefit to them from CST's activities.

In short, CST is a church in all relevant meanings of that term under the federal tax laws and is entitled to be so recognized.

³⁰ PLR 8833001; see also Foundation of Human Understanding, 88 T.C. at 1360 ("petitioner is not a sham organization created solely for tax purposes."); American Guidance Foundation, 490 F. Supp at 307 ("It is not enough that a corporation believes and declares itself to be a church. Nor is it sufficient that the applicant prepares superficially responsive documentation for each of the established IRS criteria. To hold otherwise would encourage sham representations to the IRS and result in adverse tax consequences to the public at large."); Purnell v. Commissioner, 63 T.C.M. at 3037-5 ("[T]he Kingdom is not a sham created solely for tax purposes.").