

Because they don't have to file annual financial reports with the IRS, unscrupulous sects can—and do—ignore the law with impunity. Let's close this tax loophole

HOW CULTS BILK ALL OF US

BY CARSON WILLIAMS

SOME THREE MILLION AMERICANS have joined cult churches in the last decade, a phenomenon attributed to everything from the breakdown of the family to loss of faith in traditional institutions. One thing is certain: these cults could not have experienced their spectacular rise to wealth and power without a big tax loophole furnished by the U.S. government.

Under Section 501(c)(3) of the Internal Revenue Code, any group calling itself a religion may apply for tax-free status. If granted, the status excuses religious organizations from paying taxes and, if they are deemed churches, it also frees them from the obligation to file annual financial reports with the IRS. Unlike *all* other tax-exempt organizations (except

those that take in \$10,000 or less a year), churches may keep their finances secret.

Churches are given this unusual degree of privacy because the First Amendment of the Constitution guarantees that government will not interfere with religious affairs. This separation of church and state does not guarantee freedom from taxation, but traditionally Congress has shied away from taxing religious bodies out of the belief that the power to tax implies the power to control. The Supreme Court has consistently upheld the Congressional point of view.

This absence of regulation allows cults to operate in virtual secrecy, and they often use the privilege to pursue worldly rather than spiritual

ends. With no obligation to report their finances, they are able to violate the tax laws by funneling tax-exempt money into profit-making businesses, and into the pockets of their leaders, many of whom live like potentates at public expense. One simple reform can help to stop financial abuse, the cornerstone of cult power: a requirement that all churches file annual financial reports with the IRS.

Pressure Points. To understand how financial disclosure would begin to stop cult abuses, let's see where the money comes from and where it goes. Many cults raise money by two basic strategies: deception and exploitation. Deception involves the dishonest soliciting of funds from the public. In 1978 at Los Angeles International Airport, according to a witness, a young man in Navy uniform was approached by a person who asked for money to bring missing-in-action servicemen home from Vietnam. The sailor signed over his paycheck, unaware that he was giving his money to the International Society for Krishna Consciousness (ISKCON), better known as the Hare Krishnas. Other witnesses say that ISKCON members have falsely claimed to represent a variety of causes ranging from muscular dystrophy to the Catholic Relief Mission.

An ex-member of Sun Myung Moon's Unification Church (UC) says she was instructed to "tell people anything" to get a contribution: "We Moonies even talked poor

people out of their food stamps."

Exploitation of members is the second principal source of cult wealth. Panhandlers regularly put in 12 to 18 hours a day for little or no pay. Well-organized and effectively deployed, panhandling teams pull in enormous sums; in 1976 (in a property-tax suit) ISKCON reported an income of \$762,208 from solicitations in Los Angeles alone.

Members who don't panhandle often work in cult businesses. The Tony and Susan Alamo Christian Foundation, which operates in Arkansas, California and Tennessee, gives members food and shelter. In return, they work long hours in the foundation's lucrative enterprises, including a restaurant, a service station, a cement company, a ranch and a Nashville couturier to country-and-western entertainers.

Virtual slave labor gives cult businesses an unfair advantage over secular companies, which pay taxes and are required by law to pay minimum wage and employee benefits. In northern California, Moonies operate a carpet-cleaning firm called International Exchange Maintenance. Ex-members who worked for the firm say they regularly signed over their paychecks to the UC's San Francisco leader. The money saved by this cheap labor allowed International Exchange to submit the winning low bid on a government contract to clean carpets in all federal offices in two California counties.

Finally, many cults exploit mem-

bers by pressuring them to turn over all their money and possessions. According to a 1974 report, upon joining the Children of God (also known as the Family of Love), headed by David "Moses" Berg, converts had to assign their goods and income to the organization. Other cults have recruited wealthy widows.

Exploitations are also directed against public insurance and welfare funds. Kept in poverty, cult members often qualify for welfare and other assistance. Former Moonies and ex-members of other cults who panhandled in California tell of obtaining free medical and dental care—courtesy of state and federal tax dollars.

Ties That Bind. Once inside a cult, the money gained by deception and exploitation often behaves in accordance with a basic economic principle: capital seeks investment. Under the Tax Reform Act of 1969, a religious organization may own and operate a business as long as it pays taxes on the business and does not channel its tax-exempt moneys into business operations. But because current tax laws do not require churches to disclose what they do with their money, they are in effect free to ignore the law.

Cults can easily transfer tax-exempt money into businesses by spinning a web of organizations with no visible connection to one another. The UC, for example, has dozens of components—some tax-exempt, others profit-making, tax-paying corporations. Many have denied or hidden

their ties to one another or to the UC. But, as the House Subcommittee on International Organizations discovered in its 1978 Congressional probe of Korean-American relations, the ties do exist, and money flows freely from tax-exempt to profit-making components. State Department information shows that the UC owns portions of several South Korean businesses.

Even when cult businesses are openly established as profit-making corporations, they can avoid paying taxes by donating all or part of their profits to the church as a tax-deductible, charitable contribution. A more sophisticated tactic is practiced by Spiritual Sky Scented Products, a for-profit affiliate of the Hare Krishnas. A maker of incense and related products, Spiritual Sky has borrowed money from ISKCON at annual interest rates as high as 25 percent. Since interest is deductible from gross income, this high rate substantially cuts Spiritual Sky's taxable net income. Again, such practices allow cults to compete unfairly with businesses that borrow at normal interest rates and then must pay income tax at the standard corporate rate.

Because churches can keep their finances secret, it is easy for cults to take care of their leaders royally. Tony and Susan Alamo apparently take no salary from their foundation, but they enjoy gracious living in a foundation-owned mansion in one of Nashville's most exclusive neighborhoods. Other cult leaders live equally well, with church-owned

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Behavior vs. Belief. Recognizing that financial disclosure *can* stop cult abuses, Minnesota enacted a law requiring churches that solicit substantial sums from the public to file with state authorities the same annual reports filed by secular tax-exempt organizations. The UC has challenged the statute in court, claiming that it abridges religious freedoms. Minnesota has defended its law by arguing that the UC's activities are more economic than religious, and that any group soliciting from the public should be obliged to tell the public where the money goes.

Many cult foes have suggested that the way to deal with the abuses is to abolish the tax-free status of all churches. Without tax privileges, they reason, cults would wither instantly. Although some legal experts say such a move would be constitutionally permissible, the social and historical support for religious tax exemptions, in effect for 200 years, is overwhelming. But in its most recent decision on the matter, *Walz v. Tax Commission of the City of New York* (1970), two of the reasons the Supreme Court gave for continuing privileged tax treatment raise serious questions about the "religious" nature of cults. First, the Court said, religions deserve the same tax break given to other not-for-profit groups because churches perform "certain social services in the community that might otherwise have to be assumed by government." Second, religions

"uniquely contribute to the pluralism of American society."

Experience has shown that far from doing good works that *save* tax revenues, cults have exploited public funds. And pluralism, the notion that tolerance gives American life a richness it would otherwise lack, is a value scorned by the cults. As their deceptive fund-raising demonstrates, they have little but contempt for anyone who does not see the world through their eyes. The UC's chief goal is to establish a worldwide theocracy, in which the First Amendment would not exist because church and state are one. But whenever critics voice skepticism about the cults' integrity, these groups proclaim that religious freedom is under siege. What they are really struggling to protect is the tax exemption that lets them operate in secret.

In urging financial disclosure, the aim is not to interfere with any group's *beliefs* but to stop *behavior* that the First Amendment was never intended to shield. As Richard Delgado, professor of law at the University of California, Los Angeles, and leading legal authority on cults, explains, the distinction is a crucial one. "Under the U.S. Constitution, freedom of belief is absolute. But religiously motivated behavior is not protected absolutely. To be protected by the First Amendment, the behavior must stem from theological or moral motives rather than from avarice, convenience or a desire for power. Furthermore, the behavior must be central to the group's theol-

ogy. Since business activities are not central to religious beliefs, they do not qualify for absolute protection."

Opening the Books. Until 1969, churches were allowed to operate businesses without paying a cent of income tax. Alarmed at the economic destructiveness of this tax advantage, responsible church leaders urged Congress to remove the exemption for business income unrelated to religious activity. Their suggestions were written into the Tax Report of 1969. But by leaving churches free from the obligation to file annual financial reports on non-business activities, Congress gave unscrupulous sects the secrecy they need to shuffle money like peas in a shell game.

America's religious leaders dislike the idea of government-mandated financial disclosure because they fear it would mark the beginning of state regulation of church affairs. They consider voluntary disclosure an effective way to prevent financial abuse. Accordingly, three major religious associations—the National Conference of Catholic Bishops, the Interdenominational Foreign Mission Association and the Evangelical

Council for Financial Accountability—have begun programs to make their financial information available to the public. In addition, more and more religious charities are willing to meet the financial reporting standards set by the Philanthropic Advisory Service, which monitors tax-exempt groups supported by tax-deductible contributions.

With the move toward voluntary financial reporting, many religious organizations have assumed responsibility for showing how they spend their tax-exempt money. A financial-disclosure requirement would be a simple matter of giving government the same information they now give the public. Far from harming these churches, financial disclosure would help them by exposing the spiritual con artists who cast shadows on all religious fund-raising. Disclosure would show dishonest cults for what they really are—swindles in thin cloaks of theology—and would deprive them of the secrecy they need to survive.

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