

Church of Scientology Loses Appeal on Tax-Exempt Ruling

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The Supreme Court refused yesterday to review the federal government's decision to strip the controversial Church of Scientology of California of its tax-exempt status from 1970 through 1972.

The justices, without comment, rejected the church's appeal of a ruling by a federal appeals court.

The court, however, will consider a similar issue next term in connection with another case it has agreed to hear, involving whether Scientologists may deduct from their taxable income money spent on spiritual awareness courses.

A spokesman for the church said the court's refusal to hear the case was "unfortunate," but he noted that the lower court ruling did not affect branches of the church other than those in California.

"Many churches of Scientology already have their tax exemption, and negotiations are currently ongoing with the IRS to finalize the tax-exempt status of all remaining

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church corporations," he said.

Scientology has been at the center of legal controversy since it was founded in 1952 by reclusive science-fiction author L. Ron Hubbard.

The Internal Revenue Service in 1957 recognized the church as a tax-exempt organization, but revoked that status in 1967 after finding that it regularly engaged in business for profit.

On July 28, 1987, the appellate court upheld the IRS decision, ruling that much of the church's income went to Hubbard in royalties from the sale of church literature he had written.

In the appeal before the high court (Church of Scientology of California vs. Commissioner of Internal Revenue, 87-1377), lawyers for the church said the lower court ruling "places in jeopardy the rights of all

religious organizations, particularly newer organizations, which must proselytize vigorously to communicate their religious message to the public and whose internal policies may be unorthodox by the standards of mainstream religions."

The case arose in 1977 when the IRS audited the church's records and found that it had failed to file income tax returns for the years 1970 through 1972.

The IRS calculated that the church owed \$1.2 million in back taxes and imposed an additional

\$287,614 in late filing penalties.

In defending the IRS action, lawyers for the Justice Department said the Church of Scientology "did not carry its burden of establishing that the Hubbards . . . did not divert a portion of the organization's earnings to their personal benefit."

A federal judge in 1971 ruled that Scientology was a religion entitled to protection under the First Amendment. But that was not the end of the organization's legal involvements. Seeing itself as a victim of government persecution, it has

filed hundreds of lawsuits over the years, taking on the Federal Bureau of Investigation, Central Intelligence Agency, National Security Agency, Internal Revenue Service and organizations and individuals inside and outside of government.

In Los Angeles yesterday, the Rev. Heber Jentzsch, president of the Church of Scientology International, said the decision will not affect other Scientology churches.

Scientology has 6.5 million members worldwide, and churches in 55 countries, Jentzsch said.