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IRS: Scientology is tax-exempt religion

By **WAYNE GARCIA**
Times Staff Writer

■ The agreement ends a fight that lasted decades. And the deal may help Scientologists avoid paying millions of tax dollars in Clearwater.

The Internal Revenue Service says the Church of Scientology and its myriad entities don't have to pay federal income taxes, ending a 40-year battle with the controversial church over its purpose and methods of dealing with opponents, which included burglary and intimidation.

In the past week, the Internal

Revenue Service issued 30 "determination letters" that exempted 153 Scientology churches, missions and corporations from paying federal corporate income taxes, said Frank Keith, an IRS spokesman.

The decision saves Scientology millions of dollars in taxes annually and enables Scientologists to declare their donations as charitable contributions.

It also could tip the balance in the

organization's efforts to avoid paying property taxes on its Clearwater holdings, a tab that is nearing \$7-million after more than a decade of withholding the payments. Scientology has its spiritual headquarters in Clearwater.

"We're thrilled," said Marty Rathbun, president of Scientology's Religious Technology Center, the Los Angeles-based corporation that is believed to be at the top of the hierarchy that surrounds the secretive self-help

religion founded on the works of science fiction writer L. Ron Hubbard.

"It was a 40-year war," Rathbun said Tuesday. "Essentially, any time you have peace at the end of such a conflict, you are extremely happy."

The IRS may have given Scientology something more valuable than money: legitimacy.

"Recognition of tax-exemption is Please see **SCIENTOLOGY 3A**

■ Scientology has had a history of controversy in Clearwater. **3A**

■ A glance at Scientology's origins, prominent members. **3A**

SCIENTOLOGY

Scientology from 1A

a very important recognition," Rathbun said.

"We're very happy. We think it's a good sign," said Richard Haworth, a spokesman for Scientology's Clearwater organization. "Now we can get down to our real business, that of delivering counseling."

The news of the IRS decision was announced last weekend by Scientology's top official, David Miscavige, in a speech broadcast worldwide to Scientology centers, including 3,000 people at the former Fort Harrison Hotel in Clearwater.

"We have brought to an end 40 years of suppression of Scientology and Scientologists," Miscavige said, according to Scientology documents. "Our road to ultimate expansion is now wide open."

The news was greeted with much less enthusiasm in Clearwater City Hall, where officials have openly fought Scientology since the organization began secretly buying downtown land in 1975.

"I have invested a whole number of years in this and I can say I'm disappointed if this is the final ruling," Mayor Rita Carvey said. "It's a profit-making organization preying on the needs of people looking for help."

"I think it's a license to steal," said Gabe Cazares, a former Clearwater mayor who was a target of church harassment.

Likewise, national critics of Scientology downplayed the IRS decision and continued in their assessment that the church is merely a money-making scheme.

"At its core, it is antithetical to religion," said Gerald Armstrong, a former church member who worked closely with Hubbard to research the founder's biography before breaking with Scientology in 1981. He has been sued by the church several times since then and remains at odds with Scientology's leaders.

"I've always thought that it's meaningless one way or the other" whether the IRS grants tax-exempt status, Armstrong said from his California office Tuesday night. "What is meaningful is the nature of the Church of Scientology."

Scientology calls itself an applied religious philosophy. It was founded upon principles of the mind and soul first delineated by Hubbard in his 1950 best-seller *Dianetics: The Modern Science of Mental Health*. The church espouses a strong code of ethics and behavior that includes no drug or alcohol use.

Scientologists can pay up to thousands of dollars for counseling in a process called auditing. It is aimed at ridding their mind of negative thoughts and enabling them to live the fullest life possible.

Illustration dated in 1986 after spending

the last years of his life in seclusion.

Hubbard instilled Scientology with a strong sense of survival and said its members should not hesitate to fight vigorously against critics, including government officials and the media. Some Scientologists in the late 1970s bugged an IRS office in Washington and stole files from several government agencies as part of a plan to cleanse their records. Eleven top Scientologists, including Hubbard's wife, were imprisoned in that case. Scientology officials called the 11 renegades and they were expelled from the church.

The current IRS decision was part of a broader "closing agreement" with the Church of Scientology, Keith said.

Technically, the church and its affiliates were given tax-exempt status under 501(c)3 of the federal tax code, a provision that means it won't have to file annual financial disclosure forms that other charities, but not churches, have to file.

"The service has granted tax-exempt status to a wide variety of entities within the hierarchy of the Church of Scientology," Keith said. "The majority of them are being recognized as churches."

That list includes the Clearwater-based Scientology Flag Services Organization, the umbrella organizations Church of Scientology International and Scientology Missions International and the Church of Spiritual Technology.

To determine Scientology's legitimacy, the IRS collected financial and operating records that stack up to 12 linear feet. Those records were made public in Washington on Tuesday.

Before the IRS ruling last week, only a handful of individual Scientology churches — in Boston, Detroit and Washington D.C., for example — were given tax-exempt status. Scientology parishners who tried to write their donations off their personal income taxes had been barred from doing that by a U.S. Supreme Court decision.

The IRS decision was greeted with disbelief among Clearwater and Pinellas County officials Tuesday night.

"The fact remains," said Jim Smith, the county property appraiser who is fighting an 11-year-old property tax battle with the Church of Scientology.

Smith said he didn't know how the IRS ruling would affect his case and would review the situation with county attorneys today. Scientology owns more than 14 parcels around Clearwater worth more than \$21-million. It also plans to build a \$40-million counseling center and auditorium as the next phase of expansion in Clearwater.

Information from staff writers Ned Seaton and David Dark, librarian Barbara Hight, and researcher Debbie Wolfe and the Los Angeles Times was used in this story.

About Scientology

Members: Scientology claims 8-million members worldwide, nearly 5-million in the United States.

Founder: The Church of Scientology was begun by L. Ron Hubbard, the late science fiction writer, who in 1950 wrote *Dianetics: The Modern Science of Mental Health*. The first church was founded in 1954 in Los Angeles.

Countries: It has branches in 78 countries. *Dianetics*, which is used as a scripture by Scientologists, has been translated into 25 languages.

Clearwater: In 1975, Scientology slipped into Clearwater, setting off a firestorm of controversy about its methods and intentions. The group used a front company to secretly buy the historic Fort Harrison Hotel, a landmark in downtown Clearwater. Things have changed in the last 18 years. At least 600 uniformed Scientologists work in downtown Clearwater now, and another 3,000 who don't work for the church live in Pinellas County. Scientology facilities attract 12,000 out-of-town visitors a year.

Tax-exempt status: The IRS recognized the Church of Scientology of California as a tax-exempt religious organization in 1957, but revoked that exemption in 1967. This month it has been restored.

Famous Scientologists: Actors Tom Cruise, Kirstie Alley, John Travolta and Patsy Cline; musicians Chick Corea and Al Jarreau; Sonny Bono.



CRUISE



ALLEY

Scientology surrounded by secrecy, controversy

By DAVID BARSTOW

Times Staff Writer

In 1975, the Church of Scientology used a front company to secretly buy the historic Fort Harrison Hotel in downtown Clearwater for \$2.3-million.

There has been controversy ever since. Shortly after making the hotel its worldwide spiritual headquarters, Scientologists issued an internal directive outlining a plan to "fully investigate the Clearwater city and county area so we can distinguish our friends from our enemies and handle as needed." It called for protecting "ourselves against any potential threat by taking control of key points in the Clearwater area."

Scientology documents seized by the FBI in the late 1970s showed that Scientologists had staged a phony hit-and-run accident with former Mayor Gabe Cazares in an attempt to discredit him. Cazares had criticized the group.

The Scientologists also attempted to discredit local reporters and their relatives, obtained private correspondence from the *St. Petersburg Times* and its lawyers and infiltrated the *Clearwater Sun*. (The *Times* won a Pulitzer Prize in 1980 for its reporting on the Church of Scientology.)

Concerned about complaints that the church was a cult, the City Commission held hearings in 1982 about the Scientologists. The speakers included Ron DeWolf, the son of Scientology founder and former science fiction writer L. Ron Hubbard. DeWolf said his father created a religion called Scientology to solve tax and legal problems.

"My father only knew how to do one thing and that was destroy people," he told the city commissioners.

Scientologists called the hearings a witch hunt, and in the years since Scientologists have survived and prospered.

The Scientologists now own 14 properties in Pinellas County, assessed at more than \$21-million. They employ more than 600 staff members, most of whom wear white or navy uniforms that make them a visible presence on downtown streets.

On Cleveland Street, historically Clearwater's central downtown shopping district, many businesses now cater to Scientologists. And Scientology brochures boast that Clearwater has the "largest community of Scientologists in the world."

The bedrock of the Scientology movement is a book written by Hubbard in 1950 called *Dianetics: The Modern Science of Mental Health*.

In it, Hubbard describes a new kind of counseling, which he said could help people

increase their IQ, cure themselves of arthritis, allergies, asthma and migraine headaches, and reduce their chances of having a car wreck.

Scientologists believe that by using their methods, people will learn to know themselves better and become better able to accomplish their goals.

Critics say Scientology relies on deception to lure members and keep them loyal. Some call it a cult. Others say it's a scam.

Dianetics holds that people have an analytical mind, which is infallible, like a computer. But people also have a reactive mind, which contains the source of irrational behavior.

The reactive mind is made up of "engrams," which are the legacies of painful experiences. People free themselves of their engrams by recalling the experiences that caused them. This occurs in a Scientology counseling process called "auditing." In auditing, people may attempt to recall events that occurred before their birth — as early as three days after conception.

A person being audited generally is hooked up to a device called an "E-meter," similar to a lie detector. The auditor reads the meter on the device to evaluate the subject's responses to questions.

Scientologists also believe that man is an immortal being called a "thetan."

An unusual aspect of Scientology is that it keeps many of its teachings secret, even from its members. Students proceed from one level to the next, and learning the highest levels too early is forbidden.

One of these secrets, higher levels is called "OT III," for "operating thetan three." On that level, Scientologists learn that 75-million years ago, Xenu, ruler of the galactic confederation, flew selected beings to volcanoes on a planet called Teycearck, now known as Earth.

Another unusual aspect is the price. Auditing can cost \$800 an hour. To complete Hubbard's progression of courses, a Scientologist could conceivably spend more than \$400,000.

According to court records, the organization pays annual operating expenses in Clearwater of \$26-million and sends about \$200,000 per week to the mother organization in Los Angeles.

According to a *Los Angeles Times* story, the governing financial policy behind the Church of Scientology, as written by Hubbard, is simple and direct: "MAKE MONEY, MAKE MORE MONEY, MAKE OTHERS PRODUCE SO AS TO MAKE MONEY."

— Times librarian Barbara Hight and researcher Debbie Wolfe contributed to this report.

Los Angeles Times

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Church of Scientology Gets Status of Tax-Free

By JIM NEWTON
TIMES STAFF WRITER

After decades of feuding, the Internal Revenue Service has granted the Church of Scientology and more than 150 of its corporate entities tax-exempt status, ruling that they are charitable, religious organizations entitled to be free from federal income taxes.

Marty Rathbun, president of one of the Scientology organizations that received the tax exemptions, said the government sent 30 exemption letters to Scientology groups earlier this month. All told, the exemptions apply to 153 corporate entities, said Rathbun, who is the president of the Religious Technology Center.

"We're extremely pleased with the tax exemptions," Rathbun said, adding that because of them: "We look forward to our greatest expansion ever."

The exemptions were granted as part of a larger agreement between the IRS and Scientology. They are thought to be worth millions of dollars to Scientology, which requires fixed donations for its progression of courses aimed at unburdening parishioners of spiritually traumatic past experiences.

The ruling by the IRS means that church members may now deduct those costs on their tax returns, allowing Scientology to raise money more easily. At the same time, church organizations will be exempt from federal income tax.

The exemptions come after 40 years of extraordinarily bitter fighting between the IRS and Scientology, which at times grew so intense that Scientology's late founder, L. Ron Hubbard, incorporated his deep animosity toward the agency into the church's official teachings.

The government has long recognized Scientology as a religion. But it has consistently denied tax-exempt status to the myriad corporate entities that comprise the church's sprawling empire, contending that those organizations were operating primarily as businesses and that their money was being used for the private benefit of top Scientology leaders, including Hubbard.

With that contentious history as a backdrop, Scientology's top official, David Miscavige, called followers together last weekend at the Los Angeles Sports Arena to announce the milestone exemptions.

"The war is over!" Miscavige proclaimed at the event, according to a document labeled "Executive Directive No. 750" of the Religious Technology Center. "We have brought to an end 40 years of suppression of Scientology and Scientologists. Any discrimination or biased or unfair treatment of Scientologists by the IRS is over. . . . Our road to infinite expansion is now wide open."

IRS officials, although declining to respond to Miscavige's comments, confirmed that the service had issued approximately 30 tax-exemption letters to Scientology organizations on Oct. 1. Those letters, said IRS spokesman Frank Keith, settle a host of tax disputes between the federal government and the Scientology organization.

"Based on the information supplied, and assuming your oper-

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IRS: Tax-Free Status Granted to Scientology

Los Angeles Times

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ations will be as stated in your application for recognition of exemption, we have determined that you are exempt from federal income tax," states one letter, addressed to the Church of Scientology International. A second letter, also sent to the Church of Scientology International, declares that all its subordinate organizations are exempt as well.

The exemptions are only part of a larger agreement between the IRS and the Scientology organizations, details of which government officials said they could not disclose. Dozens of federal cases involving the Church of Scientology and its various entities have been resolved under the agreement, according to government and church officials.

The Justice Department's civil division was handling those cases for the government, but officials there declined comment Tuesday, referring all calls to the IRS. Although church officials are allowed to release details of that agreement, Rathbun said they would not.

"That's like asking for somebody's tax returns," Rathbun said in response to a request for the information. "It's just not something to be bandied about in the media."

The application by the Scientology groups for tax-exempt status was the largest in the history of the IRS, filling a collection of files 10 to 12 feet long, according to an agency official.

Miscavige, the church's leader, did not respond to requests for an interview. Rathbun said Miscavige was resting after the 40-year fight with the IRS.

One of the most bitter clashes culminated in 1984 at the hands of the U.S. Tax Court. Siding with the IRS, it concluded in blistering language that the Church of Scientology of California had "made a business out of selling religion," had diverted millions of dollars to Hubbard and his family, and had "conspired for almost a decade to defraud the United States government by impeding the IRS."

That ruling only affected a single Scientology organization, however, and various groups continued to contest IRS rulings ordering them to pay taxes. In some cases, they won their challenges, creating a mishmash of legal opinions that seemed destined for the U.S. Supreme Court.

The agreement between the IRS and the Church of Scientology appears to foreclose that possibility, however. Although some issues may fall outside the agreement, the tax battles are over, at least for now, officials on both sides of the dispute agreed.

"We earned it," Rathbun said. "We're entitled to it."

From the late 1960s to the mid-1970s, IRS agents classified Scientology as a "tax resister" and "subversive," a characterization later deemed improper by a judge. For their part, overzealous Scientologists went so far in the 1970s as to bug an IRS office in Washington where the church's tax-exempt status was being discussed. That crime, among others, led to the imprisonment of 11 top Scientology leaders.

In later years, the IRS's Los Angeles office launched a far-ranging criminal investigation into allegations by high-level Scientology defectors that Hubbard skimmed millions of dollars from the church. No charges were ever filed.

During that same period in the mid-1980s, Scientologists fought back by forming the National Coalition of IRS Whistleblowers, which helped fuel a 1989 congressional inquiry into alleged wrongdoing by the former chief of IRS' Criminal Investigation Division in Los Angeles.

Practically from its inception in the 1950s, Scientology was accused by critics of being a high-pressure business masquerading as a religion to take advantage of government tax exemptions. Over the years, the organization became progressively more religious in its approach.

Originally, people who purchased Hubbard's Scientology courses were called "students," and his teachings were known as courses. Today, Scientology followers are known as "parishioners," and teachings are described as sacred scriptures.

Hubbard told his followers that religion is "basically a philosophic teaching designed to better the civilization into which it is taught. . . . A Scientologist has a better right to call himself a priest, a minister, a missionary, a doctor of divinity, a faith healer or a preacher than any other man who bears the insignia of religion of the Western World."

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Scientists Get Tax Exemption, Ending Long Battle With the U.S.

By STEPHEN LABATON
Special to The New York Times

WASHINGTON, Oct. 13 — The Government said today that it had agreed to grant a tax exemption to the Church of Scientology and more than 150 of its related corporations, ending one of the longest-running tax disputes in American history.

"This puts an end to what has been an historic war," said Marty Rathbun, president of a Scientology organization that received a tax exemption. "It's like the Palestinians and the Israelis shaking hands."

Officials at the Internal Revenue Service and the Scientology group declined to spell out the details of the settlement and would not explain why it had finally been reached after four decades of costly and bitter court fights.

People familiar with the group's closely held finances said the tax exemptions could save the organization at least tens of millions of dollars a year in taxes.

The exemptions were granted as part of a larger settlement between the Government and the Scientology organizations that ends legal disputes that go back to the founding of the church 39 years ago. Church officials said the settlement would close more than a dozen lawsuits.

Wider Application Uncertain

Officials at the Internal Revenue Service said the decision granting the Scientologists tax-exempt status does not change the existing standards for determining when an institution is to be considered religious for tax purposes. They also said that the ruling would not affect how other groups are treated.

But some tax lawyers who have advised organizations seeking tax-exempt status said the ruling would make it easier for them to argue their cases.

The church's California branch had a Federal tax exemption at one point but lost it 26 years ago, and most of the other related organizations never had exemptions. For decades, the Government has said that although Scientology can be considered a religion, its affiliated organizations had operated as businesses for the financial gain of the church's leaders, most notably L.

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TAX DISPUTE WON BY SCIENTOLOGISTS

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Ron Hubbard.

Mr. Hubbard, who founded the group in the 1950's after his book "Dianetics" became a best seller, responded to the Internal Revenue Service's challenge by making anti-Government statements that became part of the church's dogma. And after Mr. Hubbard died in 1986, other Scientology leaders, including its top official, David Miscavige, continued to preach against the Government and the tax collectors.

But today, Frank Keith, a spokesman for the Internal Revenue Service, said that as part of the settlement the Government had decided to classify the sprawling empire as a charitable and religious organization.

Mr. Keith said the group was notified of the decision on Oct. 1 and that it followed a two-year review of financial statements and other information provided by the organizations about their structure and purposes. He would not say whether the final decision had been made by the new Commissioner of the Internal Revenue Service, Margaret M. Richardson, who would normally have to approve any large settlement.

The ruling means that the church and more than 150 related educational and counseling groups will no longer have to pay Federal income taxes. Church members may also deduct their membership dues from their taxes. Mr. Rathbun said that the groups did not expect to receive refunds of back taxes because they had not been assessed for many of the years that they were claiming to be a religious organization.

Conciliatory Tone

Mr. Rathbun was unusually conciliatory toward the I.R.S. today. He said the church had prevailed after what he called "an objective review" under the auspices of John Burke, an assistant commissioner who heads the agency's Employee Plans and Exempt Organizations division.

The Church of Scientology has branches around the world and has its headquarters in Los Angeles. It calls itself a "new religion," one not based on the worship of a god, but rather one that purports to teach members how to improve the quality of their lives. Instead of salvation, it promises to rid the mind of mental obstacles to happiness and help members improve the world.

But some courts and many former members have called the organization a sham, saying it relies on religious pretenses to mask a highly profitable business.

Membership in Dispute

The group claims a membership of eight million, although former members say that those figures are grossly inflated and that the total is probably closer to 50,000.

The Federal Government recognized the Church of Scientology of California as a tax-exempt religious organization in 1957, but revoked that exemption in 1967. Its decision led to a wave of litigation by the church and the Government over different legal issues, from the church's request under the Freedom of Information Act for Government files to the Government's attempts to assess the growing organization.

In 1984, a Tax Court concluded that the church had "made a business out of selling religion," and that Mr. Hubbard and his family had diverted millions of dollars of church funds. And a Los Angeles Superior Court judge called Mr. Hubbard "a pathological liar" who seemed gripped by "egotism, greed, avarice, lust for power and vindictiveness and aggressiveness against persons perceived by him to be disloyal or hostile."

The long-running legal fight also turned into a criminal case in the 1970's after members of the church put wiretaps in an I.R.S. office in Washington, where the church's tax-exempt status was being discussed. Some of the church members also posed as Government officials, went into a United States Attorney's office, and started photocopying documents about the church.