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Florida's Best Newspaper

Scientologists profited from new members

■ Newly released earnings reports show late founder L. Ron Hubbard's disciples can earn big money by soliciting members to Scientology.

By KARL VICK and DAVID DAHL
Times Staff Writers

WASHINGTON — It pays to pitch Scientology, according to earnings reports the church has filed with the Internal Revenue Service.

One man averaged almost \$200,000 a year in commissions from the fees of new members he had solicited to become Scientologists.

The church gives its proselytizers 10 to 15 percent of what newcomers "donate" for church services, such as the process called

auditing that tells how far from salvation the newcomer is. That means the top pitchman in the 1990s, identified only as Barry Klein, drummed up more than \$1.3-million for Scientology each year.

Scientologists who collect from other church members can make out even better. Ken Pirak made \$407,000 in 1991 from a western states "membership tour," as the church calls its fund-raising rounds. Next in line that year was Steve Grant, whose commissions totaled

\$340,000 from a membership tour based in Clearwater, home of Scientology's spiritual headquarters.

The earnings reports stand out in the voluminous record of Scientology's 40-year battle to persuade the IRS that as a religious organization it deserved to be exempt from taxes.

This week the IRS announced it granted the exemption, and the Scientology files that led to the decision became public. They reveal a vast organization sophisticated in finances — and more than a little

defensive about that sophistication. "In truth, only 1 percent of Scientology Scripture has anything at all to do with finance," church lawyers wrote in one of their more combative replies to a written question from the IRS. They said founder L. Ron Hubbard's oft-quoted advice to "make money" is balanced by a passage in which Hubbard calls money "the weakest" motivation.

"People and businesses that are motivated only by money are wobbly people," Hubbard wrote.

"Yet somehow the IRS and other detractors never quote the above policy," the lawyers said. "Instead we are vilified with out-of-context quotes that are further interpreted falsely by the Service passing their interpretations off on courts."

Church lawyers went on to acknowledge that Hubbard, who died in 1986, also advised "never volunteer anything" when dealing with tax collectors. He mentioned the government's "bloodsucking appetite."

But, the lawyers add, "that is hardly a novel view."

Whatever role money plays in Scientology as a religion, it was naturally a main issue before the IRS. Millions in tax dollars were at stake, as well as a stamp of legitimacy for a religion that appears to offer its followers salvation on a fee-for-service basis.

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Documents from 12 Scientology organizations, all but one dated 1992, list \$275-million in assets. The church has holdings in real estate, stocks and gold bullion, but by far its largest source of revenue appears to be donations from its members and newcomers, who pay fees to undergo Scientology's ascending series of personal evaluation, called auditing.

Exact figures remain elusive, however, because money flows freely among the more than 30 Scientology organizations that received tax-exempt status from the IRS this month. Their hierarchy is far from simple.

For example, the buildings in Clearwater house the church's spiritual headquarters, known as the Flag Service Organization. It had assets last year of \$48-million and revenues of \$74.3-million. Of those revenues, \$24.3-million was transferred to the "mother church" — the Church of Scientology International in Los Angeles.

The mother church listed assets of \$69-million in 1991. They were topped a year later by the \$92-million controlled by the International Association of Scientologists, a "support" organization established to safeguard Scientology and raise funds. It is based in Sussex, England.

Meanwhile, the church's top executive, David Miscavige, is paid by Religious Technology Center, a \$3.8-million organization that serves as "protector of the religion of Scientology" and its logos and slogans.

If it seems confusing to an outsider, its lawyers explain that Scientology is a "very exact faith . . . (and) utmost importance is given to the precise application of Dianetics and Scientology." In the hands of rivals, the religion's trademarks could "deny unwitting and well-intentioned individuals the opportunity to experience the gains of real Dianetics and Scientology, and thus ultimate spiritual salvation."

Easier to make out is where the church spends its money. In one document, lawyers detail \$205-million in spending from cash reserves across two years, 1987 and 1988. The total includes \$30-million in legal bills, and \$3.4-million used to mount a Hollywood Boulevard exhibition on Hubbard's life.

The church spent relatively little on good works. Its own statement of one year's cash flow to organizations devoted to "social betterment," such as The Way to Happiness Foundation, totaled less than \$9-million.

Meanwhile, Scientology spent \$7-million on the seven nuclear blast-resistant doors for a vault where Hubbard's papers would be stored within titanium capsules, which cost another \$7-million.

A total of three vaults are being built, the files reveal: one in Southern California, another in Northern California, the third in New Mexico.

Other expenses: \$1-million for the powerhouse public relations firm Hill & Knowlton and \$1-million to sponsor the Seattle Goodwill Games.

An Internal Review spokesman declined Thursday to explain how the agency came to decide Scientology qualified as tax-exempt. Bland form letters announced the exemptions, and the correspondence between the IRS and the church runs in contrary directions.

The agreement appears to have grown from a 1991 invitation from the IRS to come to an amicable conclusion on the tortured issue. Yet the agency's questions understandably dwell on areas officials found most troublesome.

One was the Guardian Office. Scientology lawyers offered a lengthy summary of how the church's former security arm came to threaten reporters and other critics, infiltrate government offices and steal federal files.

From its establishment in the 1960s, the documents say, the Guardian Office was run by Hubbard's wife, Mary Sue, as a secretive separate operation with 1,500 employees. Scientology provided a sworn statement from a government prosecutor confirming that rank-and-file members knew almost nothing of its operations.

Neither, apparently, did Hubbard. The documents report the founder often disappeared for long periods, calling in every few months to ask what was new. In September 1981, he was reportedly shocked to hear developments that had been making headlines since the FBI raided his church's Washington, D.C., office four years earlier.

But then, according to the files, his sabbaticals had had consequences before.

In 1966, Hubbard left Scientology headquarters, then in England, to live aboard a yacht and investigate the past lives he suspected he had lived around the Mediterranean. His journeys led to greater ecclesiastical glories for his religion, but the church itself languished in his absence.

Eventually, managers of Scientology's spiritual side took up residence aboard the yacht *Apollo* as well, then moved to Clearwater in 1975. Its leaders share the elite mantle "Sea Org," or Sea Organization, meaning each has neared the pinnacle of the faith, and signed a contract pledging the next billion years of existence to Scientology.

"A couple of dozen of the most proven Sea Org executives," led by Miscavige, are portrayed as riding to the rescue of Scientology by wresting control of the Guardian Office from Mary Sue Hubbard in a dramatic series of "missions" in the early 1980s.

In due course, Mrs. Hubbard and 10 other Scientologists were imprisoned on charges of stealing government files and bugging an IRS office. Guardian Office and its Intelligence Bureau were disbanded altogether by Scientology and replaced by new services.

All are closely supervised, church lawyers assured the IRS.

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EDITORIALS

Scientology's 'charity'

Forget, for a moment, the corporate spying, the illicit attempts to discredit its opponents. Forget the seized Church of Scientology documents that revealed a plan "to fully investigate the Clearwater city and county area so we can distinguish our friends from our enemies and handle as needed." Forget the "church" members who bugged U.S. Internal Revenue Service offices and stole files from government agencies.

Consider merely the practical effect of the IRS' decision to grant tax-exempt status to 153 Church of Scientology churches, missions and corporations: The IRS now has granted charity status to a collection of corporations that deliver a service priced at \$800 an hour; it has asked other taxpayers to, in effect, subsidize the work of a worldwide corporate empire whose method of counseling was developed by a former science fiction writer, L. Ron Hubbard.

Even as local Scientology spokesman Richard Haworth was celebrating the IRS' decision, he was making the relevant point: "Now we can get down to our real business, that of delivering counseling."

That "business" is a multimillion-dollar operation that profits from people in need, and please take note of the bottom line. To have one's conscience cleansed and purified by the Church of Scientology can cleanse one's savings account of as much as \$400,000.

Though the IRS decision no doubt represents bureaucratic surrender, it also speaks to the impossibly flawed state of tax law. The laws governing tax status for charities and churches are so vague and so generous that a clearly non-religious or non-charitable enterprise can still claim exemption from taxation as long as it is "substantially related" to the charitable organization.

No government agency should be in the

business of defining religion, but it can determine the point at which an organization operates like a profitmaking business. That's the point at which taxes should be paid like any other business.

The problem is that Congress has been incapable of drawing that line. The basic tax exemption for charitable organizations has changed only twice since it was first adopted in 1913, and the last time a House Ways and Means subcommittee took up the issue of "unrelated-business income tax," in 1989, the effort was dropped before a bill was even introduced. Said subcommittee member Charles Rangel, D-N.Y.: "I don't see why we would want to walk on such troubled waters until we knew who's walking with us." In other words, don't fight church or charity.

The problem with the congressional hands-off approach is that it leaves the IRS in a box. The agency must accept, constitutionally, the Church of Scientology's claims of religiosity; but it can't then force the proper distinctions about profitmaking enterprise. Though non-profit organizations have argued that such abuses are rare, the IRS discovered an intriguing trend during the 1980s. Between 1985 and 1987, when Congress was debating the unrelated-business income tax, which requires taxes to be paid on the commercial portions of exempt organizations, tax payments from non-profit organizations quadrupled.

If the Church of Scientology's new status as a charity doesn't wake up Congress, then little will. Eleven years ago, when the Clearwater City Commission conducted hearings on the church, Hubbard's son, Ron DeWolf, said his father had created the religion as a way to solve tax problems, and added: "My father only knew how to do one thing, and that was to destroy people." Welcome to the nation's latest charity, one which all taxpayers will help support.

THE TAMPA TRIBUNE

OCTOBER 16, 1993

LETTERS

I am responding to the article on Scientology that ran in the Sept. 18 Florida Metro section. To say that your article was a serious misrepresentation of our counseling procedures is an understatement.

In an obvious hurry to get to print, your reporter made no attempt to even talk to any of our parishioners about their counseling experiences.

Had your reporter taken the time to do so, he would have found that our Clearwater International Religious Retreat is famous around the world for the excellence of its counseling and of its results. It is because of this reputation that more than 15,000 Scientologists a year from all over the world travel to Clearwater just to experience the benefits of the counseling we offer.

I could easily fill the Tribune with the positive life-changing success stories of Scientologists who have come to Clearwater to participate in our counseling. These are people from all walks of life who have experienced real improvements in their lives from Scientology counseling.

If these results or methods differ from other religious counseling, I can only point out that the Church of Scientology is planning on building a new \$40 million counseling center in Clearwater. That project is a good indication of the workability and popularity of Scientology counseling with people around the world.

In the future, please take the time to get the whole story before writing about something with which you are obviously not familiar. When you get the entire picture, be sure to print it.

— RICHARD HAWORTH
Clearwater

The writer is director of public affairs of the Church of Scientology, Flag Service Organization Inc.



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CLEARWATER EDITION— St. Petersburg, Fla.



EDITOR'S NOTE

**BOB
HENDERSON**

IRS ruling raises questions

The irony is incredible.

Despite receiving the request at the last possible moment, Clearwater city commissioners last week told Scientologists they could close part of S Fort Harrison Avenue to accommodate a crowd of 3,000.

Little did commissioners know that the crowd would learn, via satellite from an international Scientology convention in Los Angeles, that the Internal Revenue Service had ruled that the Church of Scientology and its many affiliates do not have to pay federal income taxes.

Ouch!

In case you missed it in the numerous Scientology stories we've published this week, here are two key quotes:

David Miscavige, a top Scientology official who is based in Los Angeles but frequently comes to Clearwater for "graduation ceremonies," said: "Our road to infinite expansion is now wide open."

Richard Haworth, Scientology's Clearwater spokesman, said when talking about the organization's operations in the downtown area that the IRS ruling "speeds it all up — we can expand everything we do."

And there is little doubt that they will expand here. The Scientologists continue to approach various downtown property owners. They probably are going to need additional land for parking when they build their \$40-million dome and adjacent 2,500-seat auditorium.

Talk around town, including at a Clearwater Jazz Holiday kickoff party Wednesday night just hours after our story revealing the IRS decision, took various forms.

Some said flatly, "Downtown is doomed." Others asked whether downtown still can become the thriving, diverse retail/entertainment/business complex its proponents dream of, or is destined to become a section of the city that operates of, by and for Scientologists.

Some were more interested in talking about the jazz festival, the weather and the Clearwater/Dunedin World Series. Those who did talk about Scientologists said, "They're here to stay. They haven't been paying property taxes (nearly \$8-million so far). This means they won't be paying in the future, either. So, what else is new? Life goes on."

Haworth, at the jazz party after a busy day fielding media inquiries, said in effect, "What's all the fuss? Times have changed. Scientologists are part of Clearwater's one big happy family now."

Those are not his words but approximate what he and other Scientologists were saying, almost as if they had rehearsed it. One of our stories Thursday quoted a downtown Scientology business owner saying about the IRS ruling, "I don't see why it's an issue."

What nobody was saying — yet — is that perhaps it's time to start talking seriously about whether religious organizations should be exempt from paying taxes. Government agencies and courts should not have to define what is a religion and what is not.

People say that taxing religious organizations would violate the separation-of-church-and-state doctrine. Others believe the reverse is true. Is government "separate" when it grants churches a favored tax status?

This IRS ruling not only means that Scientology won't be paying taxes, but it also means that Scientology adherents can deduct the substantial fees they pay as church contributions on their federal income tax forms.

It's a free country, and I have no problem with people who *willingly* pay thousands upon thousands of dollars to be counseled about shedding their negative thoughts and hangups. But when those dollars become a tax write-off, I'm having to subsidize their pastime.

Much has been said about all this, with more to come. I give Clearwater City Commissioner Fred Thomas credit for coming right to the point: "The citizens of Clearwater are going to pay through the nose for this."