

WEDNESDAY
Oct. 13, 1993

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nton, U.N.

St. Petersburg Times

Florida's Best Newspaper

25 cents

Weather High, low 80s;
partly cloudy. 2B

IRS: Scientology is tax-exempt religion

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

By **WAYNE GARCIA**
Times Staff Writer

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 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 infinite 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 Garvey 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.

Hubbard died 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 parishioners 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: They are a for-profit organization," 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 Dahl, librarian Barbara Hjek, 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 Priscilla Presley; 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 higher levels too early is forbidden.

One of these secret, higher levels is called "OT III," for "operating thetan three." On that level, Scientologists learn that 75-million years ago, Xemu, ruler of the galactic confederation, flew selected beings to volcanoes on a planet called Teegeeach, 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 Hjek and researcher Debbie Wolfe contributed to this report.