



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

ASSISTANT COMMISSIONER
EMPLOYEE PLANS AND
EXEMPT ORGANIZATIONS

SEP 1 1996

Lord McNair
House of Lords
London
SW1A 0PW
England

Re: Church of Scientology

Dear Lord McNair:

This responds to your request for assistance of August 17, 1996, for information regarding the tax-exempt status of various churches of Scientology and related charitable and educational constituent organizations. What follows is a discussion of the relevant legal analysis in these cases and our findings of fact.

As you are aware and have asked us to confirm, on October 1, 1993, the Service issued letters to the Church of Scientology International (CSI) and its related churches and related charitable and educational entities, recognizing them as exempt from United States federal income tax as exclusively religious or charitable organizations under section 501(c)(3) of the Internal Revenue Code.

An organization is exempt from federal income taxation if it is described in section 501(c)(3). In relevant part, section 501(c)(3) describes entities organized and operated exclusively for religious, charitable, or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or any individual. An organization is not described in section 501(c)(3) if it has a substantial nonexempt purpose. Also, an organization is not described in section 501(c)(3) if it has an illegal purpose and/or engages in substantial illegal activities.

Accordingly, we could not have recognized the Church entities as described in section 501(c)(3) had we determined that: (i) the Church impermissibly served private interests; (ii) the Church had a substantial nonexempt purpose; or, (iii) the Church had engaged in illegal acts or violated fundamental public policy.

You have also asked us to confirm that the Service recognized CSI and certain of its constituent entities as churches under United States tax law. CSI and certain other Church of Scientology organizations are, in fact, recognized as church entities by their designation as organizations described in section 170(b)(1)(A)(i) of the Internal Revenue Code.

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Application of that section is limited to churches or a convention or association of churches. While the Internal Revenue Service does not presume to dictate what is and is not religion, recognition of a section 501(c)(3) entity as having church status under the Internal Revenue Code generally presupposes a finding that the entity meets one or more of several criteria (including those mentioned in your letter). Church status will not be granted absent a finding of some religious aspects to the organization. Specifically, included within the criteria the Service reviews most closely is whether an entity has a recognized creed and form of worship, a regular congregation and/or regular religious services.

In the exemption application process, the Service identified and addressed the legal issues set forth above as areas of principal concern. The Service made comprehensive, detailed inquiries of the Church relating to its organization and financial structure as well as research and inquiries into several other areas relevant to our determination as discussed below.

The specific facts relied upon as the basis for these exemption letters, as in any other exemption case, may be found in the public inspection file of the applications for recognition of tax exemption related to the case. The Church supplied voluminous materials in support of its exemption applications and the exemption rulings were issued after a detailed review of the financial and corporate structure of the Church of Scientology as well as other pertinent facts. The information upon which the rulings rely, among other things, relates to: (i) the corporate, ecclesiastical, and management structure of the Church hierarchy; (ii) the Church's command channels; (iii) past financial activities; (iv) planned future programs and financial needs; (v) the flow of funds within the Church; (vi) compensation arrangements and the amounts of compensation to the key and the highest-paid Church officials and their families; (vii) overall religious programs and activities; and (viii) involvement of prior key church officials in criminal cases, civil tort cases, and other litigation matters.

The public record also contains organizational and financial information submitted relating to various foreign organizations, including the Church of Scientology Religious Education College Inc. (CSREC). The Service found nothing in the submissions to indicate that either the existence or the operations of CSREC had an adverse impact on the tax-exempt status of CSI or its constituent entities requesting recognition of exemption.

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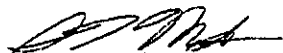
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As noted, the exemption application and supporting documents that form the basis of a favorable IRS exemption determination are available for public inspection. These documents, which take up approximately ten linear feet of shelf space, are in the IRS Public Information Reading Room in the National Office.

The IRS has not issued any press releases or other papers to the public about this case, apart from making available the exemption applications and supporting documents in the normal course of business. However, we are providing for your information a version of the Church's publication, "Description of the Scientology Religion" which is part of the application file and which we include in certain communications with third parties.

Please feel free to contact us with any questions or comments.

Sincerely,



Steven T. Miller
Special Assistant for Exempt
Organizations Matters

Enclosure:
Church Pamphlet