

\$12.5 Million Deal With I.R.S. Lifted Cloud Over Scientologists

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The Church of Scientology paid \$12.5 million to the Federal Government in 1993 as part of a settlement with the Internal Revenue Service that granted tax-exempt status to the church and ended a long and bitter battle with the agency.

The payment was part of a landmark agreement, whose details had been kept secret until yesterday, that saved the church tens of millions of dollars in taxes and provided Scientology with an invaluable public relations tool in its worldwide campaign for acceptance.

In addition to the \$12.5 million payment, the agreement required the church to create an internal oversight committee of high-level church officials to monitor its compliance with tax laws and report annually to the tax agency for three years, according to a copy of the 76-page settlement agreement.

As part of the settlement, the church agreed to drop its lawsuits against the Internal Revenue Service and its officials and to stop helping church members who, along with the church itself, had brought 2,200 lawsuits against the agency and its officials over the years.

In exchange, the tax agency stopped its audits of 13 major Scientology organizations, dismissed tax penalties and liens against some church organizations and granted tax-exempt status to 114 Scientology-related entities in the United States.

The outline of the agreement was announced by the tax agency in October 1993. But the details had been kept secret as private taxpayer information. Those details were first disclosed yesterday by The Wall Street Journal and copies of the agreement were posted on at least two Internet sites, including one operated by The Journal.

The agreement, signed on Oct. 1, 1993, represented a sharp reversal for the tax agency. For 25 years, the agency had refused to provide Scientology with the blanket tax exemption accorded bona fide churches.

The agency had contended that Scientology operated as a for-profit business that enriched some church officials. In response, the church had mounted an aggressive campaign against the revenue service and individual agency officials. In a campaign first described last March in The New York Times, private detectives dug into the backgrounds of agency personnel and the church helped finance an organization of agency whistle-blowers. According to the settlement document, two church leaders, David Miscavige and Mark Rathbun, approached the agency in October 1991 seeking to negotiate a resolution of the longstanding dispute.

Fred T. Goldberg Jr., the Commissioner of Internal Revenue at the time, met with the church officials and indicated that he, too, wanted to resolve the outstanding issues, the document said. **Over the next two years, the agency conducted an exhaustive inquiry into the finances and operations of the church. The result was the final agreement reached in October 1993.**

The Church of Scientology was founded in the 1950's by L. Ron Hubbard, a science fiction writer who died in 1986. Its adherents believe that Scientology's self-help techniques and counseling sessions, known as auditing, can help people live more productive and satisfying lives. But the cost of the auditing sessions, which can run into thousands of dollars an hour, have drawn criticism as have the church's aggressive tactics toward its critics.

The newly disclosed details of the agreement show that the church agreed to more Federal Government intrusion than perhaps any religious organization has ever allowed.

Along with creating the oversight committee, called the Church Tax Compliance Committee, Scientology agreed that the tax agency could impose penalties of as much as \$50 million on specific church organizations if they repeatedly spent money on noncharitable purposes from the time of the agreement through the end of 1999.

Mr. Rathbun, a senior Scientology official and member of the oversight committee, said the church had nothing to hide. "When you are as pure as the driven snow, it doesn't mean anything," he said of the oversight. "We're doing what we have always done, and that is operating for religious and charitable purposes."

Frank Keith, a spokesman for the revenue service, declined to comment on any details of the settlement because of the taxpayer privacy law. He said only that the agency had determined after a long inquiry that Scientology was entitled to its tax exemption. The settlement document does not disclose how much in back taxes the agency had sought from the various Scientology entities under investigation.

But Mr. Miscavige, the church's highest ecclesiastical leader, told a gathering of members in 1993 that the tax bill could have been as much as \$1 billion. Along with dismissing the audits and erasing any back-tax liability, the revenue agency reversed an earlier ruling and said that Scientologists could deduct from their taxes the money that they paid to the church for auditing sessions.

In recent years, the church has used the tax agency's decision both to raise money from its members and to counter criticism from foreign governments about its practices.

It is not known how much the tax agency has spent investigating Scientology or defending itself against the hundreds of lawsuits filed by the church and its members.