Universal Life Church, 28 T.C. 665 (1957)</p>

An organization qualifies for tax exemption under section 101(6) of the 1939 Internal Revenue Code if it is organized and operated exclusively for religious purposes and no part of its net earnings inures to the benefit of any private shareholder or individual.

Summary</p>

The Universal Life Church sought tax exemption under section 101(6) of the 1939 Internal Revenue Code. The IRS contended the Church failed to meet the requirements for exemption because it was not operated exclusively for religious purposes, and its net income inured to the benefit of private individuals. The Tax Court ruled in favor of the Church, finding that its activities, including the sale of religious materials and conclaves, were incidental to its religious purposes. The court also held that the personal expenses paid for staff and leaders did not constitute inurement of net earnings because they were reasonable and necessary for the Church's operations, and did not personally enrich those individuals, but facilitated the religious mission.

Facts</p>

The Universal Life Church was organized to propagate the teachings of the "I AM" Religious Activity. The Church conducted classes, established local sanctuaries, and sold religious publications. The IRS challenged the Church's tax exemption, arguing it was not operated exclusively for religious purposes and that net income benefited private individuals. The Church provided housing, meals, and paid for staff members' personal living expenses and certain repairs. Additionally, various students of the "I AM" Religious Activity made gifts to the Church leaders and paid for their legal defense in criminal proceedings.

Procedural History</p>

The IRS revoked the Universal Life Church's tax-exempt status. The Church petitioned the Tax Court for a review of this determination. The Tax Court examined the Church's activities and financial transactions to ascertain if it met the statutory requirements for exemption. The Tax Court ruled in favor of the Church, overturning the IRS's decision.

Issue(s)</p>

1. Whether the Universal Life Church was organized and operated "exclusively" for religious purposes.
2. Whether the "net income" of the Universal Life Church inured to the benefit of private shareholders or individuals.

Holding</p>

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1. Yes, because the activities like sale of religious materials and conclaves were closely associated with its religious purpose.
2. No, because the personal expenses paid for the staff and leaders were reasonable and necessary, and did not result in the enrichment of any private individual, given the religious mission of the Church.

Court's Reasoning</p>

The court first addressed whether the Church was organized and operated "exclusively" for religious purposes. The court noted that "the statute grants the exemption to a religious corporation." It found that the sale of religious literature and conclaves were "closely associated with, and incidental to, the religious purposes" and didn't disqualify the church. The court stated, "Such activities bear an intimate relationship to the proper functioning of the petitioner."

The court then considered if the net income inured to the benefit of private individuals. It found that the staff's personal expenses, reasonable living expenses, and home repairs paid by the Church, did not constitute inurement. The court emphasized that the expenditures were "ordinary and necessary" for the Church's activities and did not enrich any private shareholder or individual in a way that violated the statute. The court stated that under section 101(6), "no part of the net earnings…inures to the benefit of any private shareholder or individual." The court also found that the gifts made to the Church leaders and payments for legal defense were not part of the Church's income and therefore did not affect its exemption status. The court reasoned that "the test is that 'no part of the net earnings… inures to the benefit of any private shareholder or individual.'

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