Church of Eternal Life and Liberty, Inc. v. Commissioner, T.C. Memo. 1986-13

To be recognized as a church for tax exemption, an organization must demonstrate a meaningful associational role in achieving its religious purposes and must not operate in a way that its net earnings inure to the benefit of private individuals.

Summary

Church of Eternal Life and Liberty, Inc. (CELL) sought tax-exempt status as a church under section 501(c)(3). The Tax Court denied this status, finding that CELL did not operate primarily as a church due to its lack of a meaningful associational role beyond its founder and one other member. The court also found that CELL's payment of the founder's living expenses constituted private inurement, violating the operational test for tax-exempt organizations. The court emphasized that while religious purpose is necessary, it is not sufficient; a church must also function as a community of believers.

Facts

Church of Eternal Life and Liberty, Inc. (CELL) was incorporated in Michigan in 1976. Its doctrine followed that of "the First Libertarian Church." Membership requirements included not being a member of a political party (unless required by state law), signing an "oath of devotion," understanding CELL's principles, and not accepting government welfare benefits. CELL had only two members, Patrick Heller and Thomas Selene, with Heller being the founder. Heller's residence served as CELL's principal place of business, and CELL paid all expenses associated with these residences, including rent, utilities, and mortgage payments on a house purchased in Heller's name. Over 97% of CELL's funding came from contributions, with Heller contributing a significant portion. CELL's activities included maintaining a library, holding bimonthly meetings, distributing a newsletter, and selling libertarian merchandise.

Procedural History

The Internal Revenue Service (IRS) issued a final adverse determination letter denying CELL tax-exempt status. CELL petitioned the Tax Court for a declaratory judgment seeking to overturn the IRS's decision.

Issue(s)

1. Whether CELL qualifies as a "church" under section 508(c)(1)(A) of the Internal Revenue Code and is therefore exempt from the notice requirements of section 508(a) for organizations seeking tax-exempt status.

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2. Whether CELL is operated exclusively for religious purposes and for the public benefit, as required for exemption under section 501(c)(3), or whether it operates for private benefit due to inurement of its net earnings to Patrick Heller.

Holding

1. No, because CELL does not serve a meaningful associational role characteristic of a church. The court found that CELL lacked the communal aspect of a church, primarily serving the private interests of its founder.

2. No, because a substantial part of CELL's assets were used for the private benefit of Patrick Heller. The payment of Heller's living expenses by CELL constituted private inurement, disqualifying it from exemption under section 501(c)(3).

Court's Reasoning

The Tax Court reasoned that to qualify as a church, an organization must have a meaningful associational role, bringing people together for common worship and faith. Quoting *Chapman v. Commissioner*, the court emphasized that a church should "bring people together as the principal means of accomplishing its purpose," not operate in "physical solitude." The court found CELL failed this test due to its minimal membership and lack of demonstrated congregational activities. Regarding private inurement, the court found that CELL's payment of Patrick Heller's living expenses constituted unreasonable compensation and private benefit. The court noted Heller's control over CELL's funds, his significant contributions, and the fact that CELL essentially subsidized his living expenses. The court stated, "Prohibited inurement is strongly suggested where an individual or small group is the principal contributor to an organization and the principal recipient of the distributions of the organization, and that individual or small group has exclusive control over the management of the organization's funds." The court concluded that a substantial element of CELL's assets was used for Heller's private benefit, thus failing the operational test for section 501(c)(3) exemption.

Practical Implications

Church of Eternal Life and Liberty is instructive for understanding the IRS's and Tax Court's criteria for recognizing an organization as a church for tax exemption purposes. It underscores that merely claiming to be a church is insufficient; an organization must exhibit the characteristics of a communal religious body with an associational role. The case also serves as a key example of the application of the private inurement doctrine in the context of religious organizations. It highlights

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that arrangements where an organization’s founder or insiders receive substantial personal benefits, such as housing expenses, can jeopardize tax-exempt status. This case is often cited in subsequent cases involving church status and private inurement, emphasizing the need for religious organizations to operate for public benefit and avoid arrangements that primarily benefit private individuals controlling the organization.

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