The Church of Eternal Life and Liberty, Inc. v. Commissioner, 86 T. C. 916 (1986)

An organization claiming tax-exempt status as a church must serve an associational role in accomplishing religious purposes and cannot use its assets for the private benefit of individuals.

Summary

The Church of Eternal Life and Liberty, Inc. (CELL) sought tax-exempt status as a church but was denied by the IRS. CELL, founded by Patrick Heller, had only two members and its primary activities included operating a library, holding bimonthly meetings, and publishing a newsletter. The court found that CELL did not qualify as a church because it failed to serve an associational role in accomplishing religious purposes. Additionally, CELL used a significant portion of its assets to fund Heller's personal living expenses, leading to the conclusion that it was not operated exclusively for exempt purposes. The court ruled that CELL must comply with the notice requirements under section 508(a) of the Internal Revenue Code and did not qualify as an organization described in section 501(c)(3).

Facts

The Church of Eternal Life and Liberty, Inc. (CELL) was incorporated on October 1, 1976, in Michigan. Patrick Heller, the founder, was one of the two members and one of the two ordained ministers. CELL's activities included operating a library, holding bimonthly meetings, distributing literature, selling merchandise, and publishing a newsletter. Over 97% of CELL's funding came from contributions, with Patrick Heller contributing the majority. CELL paid for all of Heller's living expenses, including rent, utilities, and the mortgage on a house purchased in his name. CELL also made contributions to other organizations, including a loan to Anna Bowling and a donation to the Cryonics Institute, where Heller served as a director and treasurer.

Procedural History

CELL sought a declaratory judgment from the United States Tax Court to establish its exempt status under section 501(c)(3) of the Internal Revenue Code. The IRS denied CELL's exempt status, concluding that CELL was not organized or operated exclusively for exempt purposes and did not qualify as a church. CELL did not file a Form 1023, Application for Recognition of Exemption, but responded to IRS inquiries in a letter dated April 26, 1981.

Issue(s)

1. Whether CELL qualifies as a church under section 508(c)(1)(A) of the Internal Revenue Code, thereby exempting it from the notice requirements of section 508(a)?
2. Whether CELL satisfies the notice requirements of section 508(a) as of April 26,

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1981?
3. Whether CELL is an organization described in section 501(c)(3) of the Internal Revenue Code?

Holding

1. No, because CELL does not serve an associational role in accomplishing religious purposes and thus is not a church within the meaning of section 508(c)(1)(A).
2. Yes, because CELL submitted sufficient information to the IRS on April 26, 1981, to satisfy the requirements of section 508(a).
3. No, because a substantial element of CELL's assets were used for the private benefit of Patrick Heller, and CELL did not operate exclusively for exempt purposes as required by section 501(c)(3).

Court's Reasoning

The court applied the legal rules from sections 501(c)(3), 508(a), and 508(c)(1)(A) of the Internal Revenue Code. It determined that to qualify as a church, an organization must serve an associational role in accomplishing its religious purposes, which CELL failed to do, having only two members and no evidence of regular group worship. The court found that CELL's payment of Patrick Heller's living expenses constituted excessive compensation and prohibited inurement under section 501(c)(3), as Heller was the primary contributor and had exclusive control over CELL's funds. The court also considered CELL's contributions to other organizations, such as the Cryonics Institute, as evidence of private inurement. The court's decision was influenced by the policy of ensuring that tax-exempt organizations serve public rather than private interests. The court cited cases like *Chapman v. Commissioner* and *American Guidance Foundation, Inc. v. United States* to support its reasoning. A key quote from the opinion states, "The word 'church' implies that an otherwise qualified organization *bring people together as the principal means* of accomplishing its purpose. "

Practical Implications

This decision impacts how organizations claiming to be churches must demonstrate an associational role in their religious activities to qualify for tax-exempt status. Legal practitioners should ensure that clients claiming church status can show a coherent group of individuals regularly assembling for worship. The ruling also reinforces the IRS's scrutiny of potential private inurement, particularly when an individual is both the primary contributor and beneficiary of an organization's funds. Practitioners should advise clients to maintain clear separation between personal and organizational finances. This case has been cited in later decisions involving the tax-exempt status of religious organizations, such as *Spiritual Outreach Society v. Commissioner*, where the court similarly examined the associational role and private inurement.

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