Foundation of Human Understanding v. Commissioner, 88 T. C. 1341 (1987)

A religious organization qualifies as a church for tax purposes if its principal means of accomplishing its religious purposes is through regular assembly of a community for worship.

Summary

The Foundation of Human Understanding sought recognition as a church under section 170(b)(1)(A)(i) of the Internal Revenue Code, which would exempt it from certain filing and reporting requirements. The IRS recognized the organization as tax-exempt under section 501(c)(3) but classified it as a publicly supported organization rather than a church. The Tax Court held that the organization did qualify as a church due to its regular religious services, ordained ministers, and established congregations, despite its significant broadcasting and publishing activities. The decision highlights the criteria used to determine church status for tax purposes and underscores the need for an organization to have a community-oriented worship aspect as its principal religious function.

Facts

The Foundation of Human Understanding, founded by Roy Masters in 1961, was established to spread his religious teachings through broadcasting, publishing, and regular religious services. The organization held services in Los Angeles and Oregon, attended by 50 to 350 people. It also had a significant broadcasting presence, reaching up to 2 million listeners, and published books and a magazine. The Foundation employed ordained ministers and operated schools for children, including religious instruction. The IRS recognized the Foundation as a tax-exempt religious and educational organization under section 501(c)(3) but not as a church under section 170(b)(1)(A)(i).

Procedural History

The Foundation sought a ruling to be classified as a church under section 170(b)(1)(A)(i). After initial recognition as a nonprivate foundation under a different section, the IRS denied the church classification in 1983. The Foundation then petitioned the U. S. Tax Court for a declaratory judgment, asserting jurisdiction under section 7428. The Tax Court reviewed the case and issued a decision in favor of the Foundation, classifying it as a church.

Issue(s)

1. Whether the Tax Court has jurisdiction to review the IRS’s determination that the Foundation is not a church under section 170(b)(1)(A)(i).
2. Whether the Foundation of Human Understanding qualifies as a church under section 170(b)(1)(A)(i).

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Holding

1. Yes, because the court has jurisdiction under section 7428 to review determinations related to an organization's classification as a church, which affects its private foundation status.
2. Yes, because the Foundation's regular religious services and community involvement were its principal means of accomplishing its religious purposes, satisfying the criteria for church status under section 170(b)(1)(A)(i).

Court's Reasoning

The Tax Court reasoned that jurisdiction existed under section 7428 because the IRS's ruling was adverse to the Foundation's desired classification as a church, which had direct implications for its nonprivate foundation status. The court applied IRS criteria for church status, noting the Foundation's distinct legal existence, regular religious services, ordained ministers, and established congregations. The court emphasized that the Foundation's associational activities were more than incidental, despite its extensive broadcasting efforts. The decision highlighted the importance of community assembly for worship as the principal means of achieving religious purposes, distinguishing the Foundation from other religious organizations that might not qualify as churches.

Practical Implications

This decision provides guidance on the criteria used to classify a religious organization as a church for tax purposes, emphasizing the necessity of regular community worship as a primary function. Legal practitioners should consider these factors when advising religious organizations seeking church status. The ruling may encourage organizations to focus on community involvement and worship to gain the benefits of church classification, such as exemption from certain filing requirements. Subsequent cases have referenced this decision when determining church status, and it remains relevant in discussions about the tax treatment of religious organizations.

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