

CLOSING AGREEMENT ON FINAL DETERMINATION COVERING SPECIFIC MATTERS

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Under section 7121 of the Internal Revenue Code, the parties named herein and the Commissioner of Internal Revenue make the following closing agreement:

WHEREAS, the Church of Scientology and its constituent entities (the "Church") and the Internal Revenue Service (the "Service") have a long history of controversy spanning over 30 years;

WHEREAS, the Church has pending with the Service applications on Form 1023 requesting that the Service recognize certain constituent entities within the Church as exempt from income taxation pursuant to section 501(a) of the Internal Revenue Service Code, as exclusively charitable organizations described [in section 501 \(c\) \(3\)](#) of the Code;

WHEREAS, the controversy between the parties includes litigation (hereinafter "the section 170 litigation") in which the deductibility under [Code section 170](#) of parishioners' payments to the Church in connection with their participation in religious services of the Scientology faith is at issue;

WHEREAS, the Church signatories and individual Scientologists have initiated, supported and/or otherwise participated in litigation under the Freedom of Information Act (FOIA) to compel the Service to disclose information withheld by the Service in response to FOIA requests about its treatment of Scientologists and Churches of Scientology (hereinafter "FOIA litigation");

WHEREAS, in October of 1991, the key officials of the Church, [David Miscavige](#) and [Mark Rathbun](#), approached the Service seeking to negotiate the resolution of the above-described matters, and met with the then Commissioner;

WHEREAS, at this meeting, the Commissioner indicated his desire to resolve all outstanding issues between the Church and the Service and appointed the Assistant Commissioner to negotiate and conclude a settlement with the Church on behalf of the Service;

WHEREAS, the Church and the Service intend this closing agreement to be final and conclusive with respect to all matters but, while also final and conclusive, that its provisions relating to the continuing duties and obligations of both parties during the transition period

shall generally be effective until December 31, 1999;

NOW IT IS HEREBY DETERMINED AND AGREED, for purposes the Internal Revenue laws of the United States, and in consideration of the provisions contained herein that:

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I. Introduction.

The parties have entered into this Agreement in order to put the past controversy behind them, to extinguish all potential claims and liabilities arising as a result of action or inaction prior to the date of this Agreement and to structure their relationship into the future. While complex, there are certain basic principles underlying the Agreement that will aid in its comprehension.

First, under [section II](#) of the Agreement the Church will make a single payment that is intended to extinguish any potential tax liability that may be due and unpaid by any Scientology-related entity for all tax years up to and including the tax year ending in 1992. Thus, as of December 31, 1992, the Church will be current with respect to all income, employment and estate tax liability.

Second, under [section II](#) of the Agreement, the Church and the Service will withdraw from virtually all existing controversy, including ongoing examinations of Church entities, ongoing litigation by the Service to enforce summonses for Church records, and all litigation by the Church against the Service and its current or former personnel. In addition, because the parties intend that the relationship between them begin anew, and in light of the other provisions contained in this Agreement, including the payment with respect to potential past tax liability, the Service and the Church agree under this section II of the Agreement that the Service will not examine the Church for any year ending prior to January 1, 1993. Similarly, no Scientology-related entity may initiate or support any legal action against the Service or any Service employee for any claim arising prior to the date of this Agreement.

Third, it is the view of the Service that certain Church entities are entitled to recognition of tax-exempt status as entities described in section [501\(c\) \(3\) of the Internal Revenue Code](#). Thus, [section III](#) of the Agreement contains a list of entities that will be recognized as tax exempt entities, including certain entities that will receive group exemption letters covering their subordinate organizations.

Notwithstanding the above, in light of, inter alia, the size and complexity of the Church and the Service, certain concerns of the Service and the Church remain. In addition, there is a need for improved communication between the parties. Thus, under [section IV](#), a Church Tax Compliance Committee (CTCC) has been created to undertake certain obligations during a seven-year transition period. The CTCC is to be comprised of the largest United States Church entities, as well as those individuals who are the highest ecclesiastical or corporate authorities within the Church. The Service, through the Assistant Commissioner, has agreed to meet with the CTCC upon their request during the transition period to address any questions arising from the ongoing performance of the parties' obligations under this Agreement.

The CTCC is in a position to monitor and effect the operations of the group entities that are defined as "[Scientology-related entities](#)" under this Agreement. Under section IV, the CTCC is responsible for certain reports produced and provided annually to the Service. These reports will include a report on the application of certain agreed-upon procedures by an independent certified public accounting firms, as well as certain other information collected and reported by the CTCC. These reports, and the information the CTCC collects from Scientology-related entities in order to prepare them, are intended solely for the purposes of administration of the tax laws and not for any other purpose.

In light of the CTCC and its relationship to the whole of Scientology, the CTCC has agreed under [section IV](#) to guarantee the collection of taxes (including interest and penalties) from any Scientology-related entity for tax liability arising during the first three years of the seven-year transition period. The parties have agreed under [section V](#) to keep confidential both this Agreement and all underlying information that is not part of the public record under [Code section 6104](#) except to the extent that disclosure is necessary to interpret or apply this agreement or is permitted under the authority of law. In addition, the CTCC has agreed under section VI to certain consensual penalties intended to provide the Service intermediate sanctions for activities or conduct not in accordance with the Code or with this Agreement.

Finally, under [section VII](#), the Service and the Church have come to an agreement with respect to the treatment of contribution by Church parishioners and the extent to which those contributions are deductible under [section 170 of the Internal Revenue Code](#), as well as the Service's acknowledgment of its obligation to interpret and apply the "gift or contribution" requirement of Code section 170 (c) equally and consistently to the fundraising practices of all religious organizations that receive fixed donations from parishioners in connection with participation in worship and similar religious rituals or services.

II. Resolution of Outstanding Issues.

A. In General.

In general, the parties to the Agreement intend that the below-described issues be finally and conclusively resolved under this Agreement.

B. Payment in Consideration of Resolution of Outstanding Issues.

1. At the same time this Agreement is executed, Church of Scientology International is paying by banker's draft the sum of Twelve and One-Half Million United States Dollars (US\$12,500,000.00), receipt of which the Service hereby acknowledges, as consideration for the settlement of outstanding issues with the Service as set forth in this Agreement.
2. The amount paid under this Agreement includes recognition that the Church will not collect the attorneys' fees awarded to the Church in the Church of Scientology of Boston, Inc. litigation referred to in Exhibit II-2, thus extinguishing the Service's liability under that decision.
3. The amount paid under this Agreement is not considered part of, or attributable to, the federal tax liability of any Scientology-related individual or Scientology parishioner, and is not deductible, refundable or creditable to any such individual for any purpose, nor may the amount be the subject of any other offset of liability under this Agreement.
4. If, after application of the provisions of paragraph IX.H., the Service assesses a tax liability for a taxable year ending before January 1, 1993 against any Scientology-related entity, the amount paid under this Agreement shall be treated as a payment of the taxes so assessed against such entity as of the date of this Agreement in the manner designated by the CTCC. Otherwise, such amount shall not be considered part of, or attributable to, the federal tax liabilities of any Scientology-related entity and is not deductible, refundable or creditable to any such entity for any purpose, nor may the amount be the subject of any other offset of liability under this Agreement.
5. The amount paid under this Agreement may be designated as the Service provides (including penalties or liquidated damages) so as to avoid characterization as a refundable or creditable amount.
6. The amount paid under this Agreement shall not be deductible in computing the taxable income of any Scientology-related entity or Scientology parishioner and shall not be treated as compensation of either income to any Scientology-related entity or Scientology parishioner.
7. The performance of the various obligations under this Agreement by the CTCC or by any Scientology-related entity, including (but not limited to) the payment under paragraph II.B.1. hereof, shall not in and of itself be considered by the Service to constitute the conferring of substantial private benefits by any Scientology-related entity, the private inurement of the net earnings of any Scientology-related entity, nor shall such performance adversely affect in any other way the tax exempt status under [Code section 501 \(c\) \(3\)](#) of any Scientology-related entity.
8. No inference shall be drawn from the fact that the payment provided in paragraph II.B.1 has been made with respect to whether any Scientology-related entity agrees that any tax liability was actually due or owing for any pre-1993 period.

C. Effect of Agreement on Prior Tax Years and Waiver of Rights of Action.

1. The Service agrees not to commence an examination or assess any tax liability under subtitles A, B, or C of the Code or under Chapter 42 of subtitle D of the Code for any taxable

period ending on or before December 31, 1992, with respect to any Scientology-related entity. Similarly, no Scientology-related entity shall have any right to refund or offset with respect to any payment made for any taxable period ending prior to the date this Agreement is executed. Notwithstanding the previous sentence, any amounts held in accounts under the joint signatory authority of any Scientology-related entity and a representative of the Service, and any other amounts otherwise in the nature of bond, to defer collection action by the Service with respect to any liability assessed against a Scientology-related entity for the a pre- taxable period (including, but not limited to, joint signature accounts at Sumitomo Bank to serve as collateral for FICA assessments against CSI, RTC, CSWUS, and CST) shall be released or otherwise returned to the Scientology-related entity. The Service and the CTCC shall jointly draft notice to the bank (s) to effectuate release of such funds.

2. To the extent any payments have been made and/or claims for refund filed for any taxable period prior to the date of this Agreement by a Scientology- related entity, the Church and Service agree that such payments are not subject to refund and will not be refunded. The CTCC certifies that no Scientology-related entity will continue to pursue such claim for refund or file any new claim for refund for any pre-1993 period.

3. The Service and the Church agree that no inference is to be drawn from any provision of the Agreement as to the tax treatment of any activity or item relating to any liability under the Code for any post-1992 periods unless expressly provided herein. For example, the fact that the Service has not assessed any unrelated business income tax for past years may not be construed to mean that activities that occurred in those years did not give rise to such liability and that if such activities continue into post-1992 taxable years, that they will not give rise to such income. For further example, the fact that the Church has made the payment provided in paragraph B.1. shall not be construed as an admission, or otherwise used in any way as evidence, that any Scientology-related entity was not exempt from federal tax for any taxable period before 1993.

4. In reliance upon the covenant of good faith and fair dealing that underlies this Agreement, the Church signatories, as well as the Individual At-large members of the CTCC agree to relinquish all claims arising out of any action or inaction of the Service of current or former Service employees that occurred prior to the date of this Agreement, including, but not limited to, any claims of continued conspiracy having a genesis prior to the date of this Agreement. In addition, the Church signatories, and the Individual and At-large members of the CTCC certify that no Scientology-related entity or Scientology-related individual shall assist (directly or indirectly) any party in any suit against the United States, the Service or current or former Service employees based upon any claim arising out of any action or inaction of the Service or former or current employees that occurred prior to the date of this Agreement including, but not limited to, any claims of continued conspiracy having its genesis prior to the date of this Agreement. If any Scientology-related entity or Scientology-related individual commences any such action or provides any such assistance, then section VI shall apply.

5. The CTCC shall indemnify and hold the United States, the Service or any Service employee (former or present) harmless with respect to any litigation filed or pursued in contravention of the Agreement, that is, any litigation filed or pursued by or with the assistance of any Scientology-related entity or Scientology-related individual. For purposes of this paragraph C.5, direct or indirect assistance includes, but is not limited to, financial aid, litigation support, or the use in connection with litigation of documents obtained from the

Service by any Scientology-related entity or Scientology-related individual prior to the date of this Agreement or under the Inspection provisions of the Settlement Agreement entered into by the parties on even date herewith.

6. Subject to the requirements of section VII, paragraph G., nothing in the preceding two paragraphs shall be construed to prevent any Scientology-related entity from conducting, supporting, or participating in, directly or indirectly, any judicial proceeding to construe or enforce the obligation under this Agreement, nor to impose any sanction or require indemnification to the Service as a result of such proceeding.

D. Effect on Outstanding Administrative Matters.

1. Church tax inquiries under [Code section 7611](#).

The Service shall close the following church tax inquiries on a no-change basis:

Church of Scientology International [[reference](#)]

Church of Scientology Flag Service Organization, Inc. (two outstanding inquiries) [[reference](#)]

Church of Scientology Western United States [[reference](#)]

2. Other examinations of Scientology-related entities.

The Service shall close the following income or employment tax examinations on a no-change basis:

Church of Scientology Expansion Trust [no reference]

Church of Scientology Religious Trust [[reference](#)]

Scientology Endowment Trust [[reference](#)]

Bridge Publications, Inc. [[reference](#)]

Applied Scholastics International [[reference](#)]

Author's Family Trust B [no reference]

International Association of Scientologists [[reference](#)]

Religious Technology Center [[reference](#)]

Church of Scientology International [[reference](#)]

Church of Spiritual Technology [[reference](#)]

Church of Scientology Flag Service Organization, Inc. [[reference](#)]

Church of Scientology Western United States [[reference](#)]

Church of Scientology of California (employment) [[reference](#)]

3. Outstanding tax assessments.

The Service shall abate in their entirety the following unpaid tax assessments:

Church of Scientology of California, FICA and FUTA for all quarters of the years 1976 through 1986.

Religious Technology Center, FICA for all quarters of the years 1986 and 1987.

Church of Scientology International, FICA for all quarters of the years 1986 and 1987.

Church of Spiritual Technology, FICA for all quarters of the years 1986 and 1987.

Church of Scientology Western United States, FICA for all quarters of the years 1986 and 1987.

Religious Technology Center, Form 1120 Corporate Income Taxes, interest and penalties for the years 1982 to 1988.

Church of Scientology International, Form 1120 Corporate Income Taxes, interest and penalties for the years 1981 to 1988.

With respect to the foregoing tax assessments, the Service agrees to withdraw any notices of levy and to release any notices of tax lien filed or made prior to the date of this Agreement.

4. Trust fund recovery penalties.

The Service shall abate in their entirety assessments made under [Code section 6672](#) with respect to certain FICA assessments against Church of Scientology of California (1985-1986), Church of Scientology International (1988), Church of Spiritual Technology (1988), Religious Technology Center (1988), and Church of Scientology Western United States (1988), against the following individuals: David Miscavige, Norman F. Starkey, Marc Yager, Mark Ingber, Lyman Spurlock, Patrick Broeker, and Ann Marie Tidman (Broeker). In addition, with respect to the foregoing penalty assessments, the service shall (1) refund upon proper claim any amounts collected, along with interest as permitted by law, (2) withdraw any notices of levy, and (3) release any notices of tax lien filed.

5. Time period in which to effectuate paragraph D.

The Service shall take the actions required under this paragraph D. by April 1, 1994.

E. Effect on Outstanding Litigation Matters.

1. In general.

The Service and the CTCC agree that all litigation set forth in [Exhibits II-1 and II-2](#) shall be dismissed with prejudice by stipulation of the parties (or, where appropriate, the pending appeal shall be withdrawn) with all litigation costs (e.g., attorney fees) to be borne by the respective parties. The parties agree that no damages, costs, attorney fees, or any other amounts of relief shall be sought by any Scientology-related entity or Scientology-related individual, the United States, the Service or any individual plaintiff in any suit contained in Exhibits II-1 or II-2.

2. Zolin.

The Service further agrees that following dismissal of the litigation listed on Exhibit II-2 as Zolin, it shall use its best efforts to return to the CTCC all materials and all copies thereof produced to the Service in response to the summons at issue in that litigation by no later than April 1, 1994. The CTCC hereby certifies that CSI shall retain all such materials during the transition period. No inference shall be drawn from the fact the Service is returning these materials that they were summonsed for an improper law enforcement purpose and the CTCC agrees not to assert such an inference in any future litigation.

3. Stipulations.

At Exhibit II-3, are copies of stipulations to dismiss the cases discussed at paragraph E.1. executed by counsel of record for the non-governmental parties thereto. The parties agree that, to the extent practicable, these stipulations shall be used to cause the dismissal of these cases and will provide a complete resolution of all issues arising out of the same subject matter. The parties agree that these stipulations shall be executed by counsel of record for the government and returned to the CTCC. The CTCC will file the fully executed stipulations with the appropriate court within 30 days of its receipt of the executed stipulations. The parties further agree not to undertake any further actions to prosecute or defend any such litigation during the period of time following execution of this Agreement until the court has acted on the parties' dismissal stipulations. In addition, the parties agree to file as necessary requests to stay any action on such cases pending dismissal.

4. Certain pending cases requiring coordination.

Recognizing that carrying out the provisions of this paragraph E. shall require coordination with persons and agencies not parties to this Agreement, the parties further agree as follows:

- a. The Service shall use its best efforts to secure the voluntary dismissal with prejudice of all litigation listed in Exhibits II-1 and II-2 in which the Commissioner, the Service and /or Service employees are represented by the United States Department of Justice.
- b. The CTCC shall use its best efforts to secure the voluntary dismissal with prejudice of all litigation listed in Exhibits II-1 and II-2 insofar as it involves litigants who are not Scientology-related entities or individual members of the CTCC. Following execution of this agreement, the Church signatories, and the Individual and At-large members of the CTCC certify that no Scientology-related entity nor Scientology-related individual shall provide any further support or assistance (directly or indirectly) in such litigation.

F. After-Discovered Cases or Examinations in Existence as of the Date of this Agreement.

It is the intention of the parties to cease activity and dismiss with prejudice all existing cases in controversy between the Service and any Scientology-related entity or Scientology-related individual, costs to be borne by each party (e.g., attorney fees), as well as all existing current examinations of Scientology-related entities for years prior to 1993. Thus, if there exists other civil actions that are not contained in Exhibits II-1 and II-2 or in the Settlement Agreement, Exhibit IV-6, or an examination of a Scientology-related entity is not listed in paragraphs D.1 and D.2, and the exclusion of such suit was inadvertent (i.e., not specifically discussed and

intentionally excluded by the parties during their negotiations), the parties agree to dismiss such suit or cease such examination as soon as administratively feasible.

G. Finality.

The provisions of this section II. are final and conclusive, except as provided [in section IX, paragraph H.](#), notwithstanding the seven-year transition period set forth in other provisions of this agreement.

III. Service Determinations Regarding Scientology-Related Entities.

A. Issuance of Determination Letters.

Having received and reviewed the completed Forms 1023, Applications For Recognition of Exemption and the attachments thereto for the entities described in paragraphs B.1, B.2, B.3, B.4, B.5, B.6, B.7, B.8, and B.9 together with requests for group exemption letters and the attachments thereto described in paragraphs in paragraphs C.1, C.2, C.3 and C.4, on the basis of that information, the Service is issuing the individual determination letters and group determination letters described below and copies of which are attached at Exhibits III-1 through III-30.

B. Individual Determination Letters.

1. The Service hereby issues individual determination letters (copies attached as [Exhibits III-1 through III-5](#), respectively) that the following entities are organizations described in [Code sections 501\(c\) \(3\), 170\(c\) \(2\), 509\(a\) \(1\), and 170 \(b\)\(1\)\(A\)\(i\)](#):

Religious Technology Center ("RTC") [[reference](#)]

Church of Scientology International ("CSI") [[reference](#)]

Scientology Missions International ("SMI") [[reference](#)]

Church of Spiritual Technology ("CST") [[reference](#)]

Church of Scientology Flag Service Organization, Inc. ("CSFSSO") [[reference](#)]

2. The Service hereby issues an individual determination letter (copies attached as Exhibit III-6) that Foundation Church of Scientology Flag Ship Service Organization ("CSFSSO") is an organization described in [Code sections 501\(c\) \(3\), 509\(a\) \(1\), and 170\(b\)\(1\) \(A\) \(i\)](#). CSFSSO is not described in Code section 170 (c) (2) because it is a foreign entity.

3. The Service hereby issues individual determination letters (copies attached as [Exhibits III-7 through III-14](#), respectively) that the following Scientology-related entities are organizations described in [Code sections 501\(c\) \(3\), 170\(c\) \(2\), and 509\(a\) \(3\)](#):

Inspector General Network ("IGN") [[reference](#)]

International Hubbard Ecclesiastical League of Pastors ("IHELP") [*no reference*]

Building Management Services ("BMS") [[reference](#)]

Bridge Publications, inc. ("BPI") [[reference](#)]

Dianetics Centers International ("DCI") [*no reference*]

Dianetics Foundation International ("DFI") [*no reference*]

Hubbard Dianetics Foundations ("HDF") [*no reference*]

U.S. IAS Members' Trust [[reference](#)]

4. The Service hereby issues individual determination letters (copies attached as Exhibits III-15 and III-16, respectively) that the following Scientology-related entities are organizations described in Code sections 501 (c) (3), 170 (c) (2), 509 (a) (1) and, 170 (b) (1) (A) (vi):

The Way to Happiness Foundation ("TWTH") [[reference](#)]

Association for Better Living and Education ("ABLE") [[reference](#)]

5. The Service hereby issues individual determination letters (copies attached as Exhibits III-17 and III-19, respectively) that the following Scientology-related entities are organizations described in Code sections 501 (c) (3) and 509 (a) (3):

Scientology International Reserves Trust ("SIRT") [[reference](#)]

Flag Ship Trust ("FST") [[reference](#)]

New Era Publications International ApS ("NEP") [[reference](#)]

However, these organizations are not describe in [Code section 170 \(c\) \(2\)](#) because they are foreign entities.

6. Pursuant to a ruling request, the Service hereby modifies the individual determination letter (copy attached as Exhibit III-20) that the Church of Scientology Religious Trust ("CSRT") is an organization described in [Code sections 501\(c\) \(3\)](#), [170 \(c\) \(2\)](#), and [509\(a\) \(3\)](#).

7. The Service hereby issues individual determination letters (copies attached as [Exhibits III-21 through III-23](#), respectively) that the International Association of Scientologists ("[IAS](#)") and its operating arms: Membership Services Administration, Ltd., and Foundation International Membership Services Administration d/b/a IAS Administrations, are organizations described in [Code sections 501\(c\) \(3\)](#), and [509\(a\) \(3\)](#). IAS and its operating arms are not described in [Code section 170\(c\) \(2\)](#) because they are foreign entities.

8. The Service hereby issues an individual determination letter (copy attached as Exhibit III-24) that the Hubbard College of Administration ("[HCA](#)") is an organization described in [Code sections 501\(c\) \(3\)](#), [170 \(c\) \(2\)](#), [509 \(a\) \(1\)](#), and [170 \(b\) \(1\) \(A\) \(ii\)](#).

9. Having previously issued a determination letter to the Church of Scientology Western United States ("[CSWUS](#)") (under the name Church of Scientology of San Diego) recognizing CSWUS as an organization described in Code sections 501(c) (3), 170 (c) (2), 509 (a) (1), and 170 (b) (1) (A) (i), and having received and reviewed an updated Form 1023 and attachments thereto (dated August 30, 1993), the Service hereby issues a revised determination letter (copy

attached as Exhibit III-25) recognizing CSWUS as an organization described in [Code sections 501\(c\) \(3\), 170 \(c\) \(2\), 509 \(a\) \(1\), and 170 \(b\)\(1\) \(A\) \(i\)](#).

10. The Service agrees that the organizations listed in paragraphs B.1, B.2. and B.9. are churches described in [Code section 6033 \(a\) \(2\) \(A\) \(i\)](#). Pursuant to Code section 6033(a) (2), Treas. Reg. [Section] 1.6033-2(g) (6), and [Rev. Proc. 86-23, 1986-1 C.B. 564](#), the service determines that the organizations described in paragraphs B.3, B.5, B.6, B.7, and B.8. are church-affiliated organizations that need not file annual Forms 990. However, nothing in this Agreement relieves any Scientology-related entity from any requirement to file a return (e.g., filing the Form 990-T in the event of unrelated business taxable income).

C. Group Determination Letters.

1. The Service hereby issues a group determination letter (as described in [Rev. Proc. 80-27, 1980-1 C.B. 677](#) and [Treas. Reg. \[Section\] 601.201 \(n\) \(8\)](#) (copy attached as [Exhibit III-26](#))) that the subordinate organizations of the Church of Scientology International are organizations described in [Code sections 501\(c\) \(3\), 170 \(c\) \(2\), 509 \(a\) \(1\), 170 \(b\)\(1\) \(A\) \(i\)](#), and [6033 \(a\) \(2\) \(A\) \(i\)](#).

2. The Service hereby issues a group determination letter (as described in [Rev. Proc. 80-27, 1980-1 C.B. 677](#) and [Treas. Reg. \[Section\] 601.201 \(n\) \(8\)](#) (copy attached as [Exhibit III-27](#))) that the subordinate organizations of [Scientology Missions International](#) are organizations described in [Code sections 501\(c\) \(3\), 170 \(c\) \(2\), 509 \(a\) \(1\), 170 \(b\)\(1\) \(A\) \(i\)](#), and [6033 \(a\) \(2\) \(A\) \(i\)](#).

3. The Service hereby issues a group determination letter (as described in [Rev. Proc. 80-27, 1980-1 C.B. 677](#) and [Treas. Reg. \[Section\] 601.201 \(n\) \(8\)](#) (copies attached as [Exhibit III-28](#) and [III-29](#), respectively)) that the subordinate organizations of the following Scientology-related entities, are organizations described in [Code sections 501\(c\) \(3\), 170 \(c\) \(2\), 509 \(a\) \(1\), 170 \(b\)\(1\) \(A\) \(i\)](#) (but are not described in [6033 \(a\) \(2\) \(A\) \(i\)](#)):

Applied Scholastics Inc. [reference]

Hubbard College of Administration ("HCA") [reference]

4. The Service hereby issues a group determination letter (as described in [Rev. Proc. 80-27, 1980-1 C.B. 677](#) and [Treas. Reg. Section 601.201\(n\)\(8\)](#) (copy attached as [Exhibit III-30](#))) that the subordinate organizations of the Citizens Commission on Human Rights ("CCHR") are described in [Code sections 501\(c\) \(3\), 170 \(c\) \(2\), 509 \(a\) \(1\), 170 \(b\) \(1\) \(A\) \(vi\)](#) (but are not described in Code section [6033 \(a\) \(2\) \(A\) \(i\)](#)).

5. Subordinate organizations initially covered by the group exemptions recognized under paragraphs C.1, C.2, C.3 and C.4 are set forth in the following respective [Exhibits](#):

Church of Scientology International Exhibit III-31 [reference]

Scientology Missions International Exhibit III-32 [reference]

Applied Scholastics Inc. Exhibit III-33 [reference]

Citizens Commission on Human Rights Exhibit III-34 [reference]

Hubbard College of Administration Exhibit III-35 [reference]

IV. Obligations and Undertakings During the Transition Period.

A. Establishment of Church Tax Compliance Committee

1. Purpose of Church Tax Compliance Committee.

The Church Signatories and others as described below shall form a Church Tax Compliance Committee (the "CTCC"). The purpose of the CTCC is to ensure that Scientology-related entities, including those recognized under [section III](#) of this Agreement as tax-exempt continue to be organized and operated in conformity with the requirements of [Code section 501 \(c\) \(3\)](#) and the provisions of this Agreement. Further, the CTCC is to ensure that no Scientology-related entity, regardless of whether the entity is described in Code section 501 (c) (3), engages in any conduct that may endanger the tax-exempt status of any other Scientology-related entity or that would otherwise be in contravention of this Agreement. The membership of the CTCC shall guarantee the obligations of any Scientology-related entity as to necessary compliance with the Code and the requirements of this Agreement. In addition, the CTCC will facilitate communication between the parties to this Agreement.

2. Membership of Church Tax Compliance Committee.

The CTCC shall consist of Corporate, At-large and Individual members.

a. Corporate CTCC members.

The Corporate CTCC members are RTC, CST, CSFSO, CSWUS, BMS, and CSRT (hereinafter "Corporate CTCC members"). The Church of Scientology Religious Trust is also a Corporate member, to be represented by one CSRT trustee designated for this purpose. The Presidents of RTC, CSI, CST, CSFSO, CSWUS and BMS shall serve as representatives of their respective entities on the CTCC. No Corporate CTCC member may withdraw from the CTCC.

b. At-large members of CTCC.

The Watchdog Committee (as described in the Qualified Written Material) shall be an At-large member of the CTCC and shall be represented on the CTCC by the Chairman of the WDC. In addition, the International Finance Director and the Chief Accountant International shall serve as At-large representatives on the CTCC. The At-large members of the CTCC may not withdraw from the CTCC, although the individuals representing WDC or serving as Finance Director or Chief Accounting International may be replaced by reason of the prior office holder no longer serving in that capacity. The CTCC shall give prompt notice to the Service of any replacement of these individuals on the CTCC.

c. Individual CTCC members.

The individual members of the CTCC are David Miscavige, Norman Starkey, Mark Rathbun and Heber Jentsch. No individual member of the CTCC shall be permitted to withdraw from

service on the CTCC, except by reason of death, being adjudicated an incompetent, or by mutual agreement of the parties to this Agreement.

3. Responsibilities of CTCC.

In general, the CTCC is responsible for overall implementation of the duties and obligations imposed with respect to the Scientology-related entities by this Agreement during the transition period. Specific responsibilities and duties of the CTCC shall include the following:

a. Annual Report.

The CTCC is responsible for submission of the Annual Report transmitting the information required under [section IV. paragraphs B., C., D.2 and D.3](#) of this Agreement (the Annual Report). The CTCC is also responsible for engaging the certified public accounting firm that is required to perform and report on certain agreed-upon accounting procedures under section IV. paragraph B. of this Agreement. Information required to be reported shall be contained in the Annual Report relating to the taxable year at issue and due no later than July 15 following the end of such year. This date may be extended by written agreement between the Service and the CTCC. No extensions beyond November 15 shall be granted, absent extraordinary circumstances. The Annual Report, any supplements thereto, and any responses to inquiries under paragraphs B. and C. shall be submitted under penalties of perjury in a manner similar to that set out in the form 990 (hence subject to prosecution under [Code section 7206\(1\)](#)). This report will be signed by all members of the CTCC.

b. Communications.

i. If the CTCC determines that it needs to communicate with the Service regarding any issue related to the Church and the Service, the CTCC may so notify the Service in writing. Included within the notice will be specific information regarding the issue the CTCC wishes to raise. Such disclosure is intended to provide the Service with sufficient information to determine if waivers under [Code section 6103](#) may be required. If the Service determines that it needs to communicate with the CTCC regarding any issues related to the Church, the Assistant Commissioner may so notify the CTCC in writing.

ii. The CTCC shall submit waivers in favor of CTCC members and their counsel as required under [Code section 6103](#) on behalf of all Scientology-related entities recognized as described in [Code section 501\(c\)\(3\)](#) under [section III](#) of this Agreement as soon as practicable but in no event later than 120 days after execution of this Agreement. Every such waiver also shall be submitted to the Service not more than 60 days after its execution by the relevant Scientology-related entity.

iii. Notwithstanding the provisions for written notice in subparagraph i., nothing shall prohibit the parties from other, less formal modes of communication, such as the telephone. It is contemplated that there will be regular and frequent informal communications with respect to matters arising under this Agreement.

c. Meetings.

- i. The CTCC and the Assistant Commissioner shall meet no less than once each year during the transition period, such meeting to be held no later than 90 days following the Service's receipt of the CTCC's annual report under subparagraph a.
- ii. If the CTCC submits a written request for a meeting, then a meeting with the Assistant Commissioner shall be held within 15 working days after the receipt of such written request.
- iii. All meetings under this subparagraph c. shall be held at a mutually agreeable time at the National Office of the Service or other mutually agreeable location.

d. Guaranty.

- i. In general. The Corporate CTCC members absolutely and unconditionally, jointly and severally, guarantee to the Service the full and prompt payment of all U.S. tax liabilities under the Code (including but not limited to income tax (including tax imposed under [Code section 511](#)) and employment tax), together with all interest and penalties, accruing or arising during the first three years of the transition period with respect to all Scientology-related entities. This guaranty is for the sole benefit of the Service and is for purposes of collection of the tax. The specific Scientology-related entity that is allegedly liable for the tax may contest the liability as permitted under the Code and regulations, and any final adjudication thereof, after exhaustion of all appeals, shall be binding and conclusive on the CTCC. If the liability is assessed against the specific Scientology-related entity without judicial review, the CTCC may dispute the underlying liability in any suit by the Service under paragraph A.3.d.ii. of this section IV. to collect on the guaranty. In addition, the guaranty shall not be operative to the extent that the Scientology-related entity satisfies the underlying liability or is successful in disputing the fact or amount of such liability.
- ii. Procedure for collection. At the time such liability is due and owing (i.e., the Scientology-related entity has exhausted its remedies), the Service may, at its sole option, present the CTCC with a notice substantially in the form of a Revenue Agent's Report detailing the unpaid tax, interest and penalty. The CTCC shall have 180 days from such notice to make the payment, with interest, or to arrange for installment payments, with interest, to be made over a period not to exceed three years, which will provide the Service the present value of the liability. If no payment (and no arrangement for installment payments) is timely made, the Service may enforce the guaranty provisions of this Agreement.
- iii. Term of guaranty. This guaranty will apply only to tax liabilities of Scientology-related entities for taxable years 1993 through 1995. The Service must present the CTCC with notice for payment in accordance with subparagraph ii., no more than two years following its receipt of the CTCC's report under paragraph A.3.a for the year 1997 or be forever barred from collecting on this guaranty. For purposes of this subparagraph d.iii, the notice under subparagraph d.ii may be given the CTCC prior to such time as the Scientology-related entity has exhausted its judicial remedies.
- iv. Example. A Class V church is determined by the Service to have engaged in an activity giving rise to unrelated business taxable income. The Class V Church disputes that the activity was a trade or business and the Class V Church brings suit in Tax Court. The Tax Court upholds the Service's position and the decision becomes final (including completion of

appeal thereof or expiration of the time for bringing an appeal). At this time, the Service may collect the UBIT along with any applicable interest or penalties, upon notice, from the CTCC.

v. Certain events not impairing guaranty. Without in any way limiting the generality of the absolute and unconditional guaranty in paragraph A.3.d, the obligations of the Corporate CTCC members under this Agreement shall not be affected or impaired by reason of the happening from time to time of any of the following events with respect to this Agreement, even if any such events happen without the giving of notice to, or obtaining the consent of, the Corporate CTCC member:

a. any compromise, settlement, release, renewal, extension, indulgence, modification or termination of any or all of the obligations, covenants or agreements of any Church signatory, Scientology-related entity, or any Corporate CTCC member under this Agreement, including but not limited to any modification or amendment (whether material or otherwise) of any obligation, covenant, or agreement set forth in this Agreement;

b. any waiver of the performance or observance by the Service or any Church signatory or Scientology-related entity, as the case may be, of any of the obligations, covenants, agreements, duties, terms or conditions in this Agreement;

c. any extension of time for the filing of any tax return, payment of all or any part of any U.S. tax liability or the extension of the time for payment of any sums of money due under this Agreement or of the time for performance of any obligation under or arising out of this Agreement;

d. any change in the composition of the CTCC, whether by the addition of any Individual, At-large or Corporate member, or the substitution, admission, withdrawal or removal of any CTCC member;

e. any voluntary or involuntary liquidation, dissolution, merger, sale or other disposition of all or substantially all of the assets, marshaling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition, readjustment of debt, or other similar proceeding affecting any Church signatory, Scientology-related entity, any member of the CTCC or any of their assets, any stay of the enforcement by the Service of any remedies against any Church signatory, Scientology-related entity or any member of the CTCC, in connection with any of the foregoing;

f. the taking of any actions referred to in the Agreement or any failure, omission, delay, or deficiency on the part of the Service in enforcing, asserting or exercising any right, power, sanction or remedy pursuant to the Code or this Agreement;

g. any release or discharge of any Church signatory, Scientology-related entity, or CTCC member from the performance or observance of any obligation, covenant, agreement, duty, term or condition herein, respectively, by operation of law;

h. any merger, consolidation or sale, transfer, gift or other disposition of assets by any Church signatory, Scientology-related entity or CTCC member; or

i. any default or failure by any member of the CTCC fully to perform the obligations, agreements, covenants, or duties under this Agreement.

vi. No set-off. No set-off, counterclaim, reduction or diminution of obligation, claim for refund, abatement, or any defense of any kind or nature which any member of the CTCC has or may have against the Service shall be available to any member of the CTCC against the Service with respect to the guaranty set forth in this section IV, [paragraph A.3.d.](#)

vii. Right to proceed directly against Corporate CTCC members. The Service, in its sole discretion, shall have the right to proceed first and directly against any one or all Corporate CTCC members under this Agreement, without proceeding against or exhausting its remedies against any other Corporate CTCC member of any other Scientology-related entity.

viii. Agreement by CTCC not to diminish assets during transition period. The CTCC agrees that it shall not allow the material diminution of the assets of the Corporate members of the CTCC during the transition period. Diminution of assets will be deemed to be material to the extent that there has been in any year during the transition period, the transfer, grant, contribution, loan, payment for services, gift, voluntary or involuntary conversion, exchange, sale or any other disposition of assets (including but not limited to trademarks, copyrights, cash, securities, mortgages, etc.) by one or more Corporate CTCC members within the taxable year at issue resulting in the reduction in aggregate value, reflecting the greater of cost or market, of ten-percent or more of the aggregate total value (reflecting the greater of cost or market) of all Corporate CTCC members as of the beginning of the taxable year at issue. At no time during the transition period may the aggregate value of gross assets of the Corporate CTCC members be reduced by over fifty percent from the aggregate net value of their assets on December 31, 1993 through the disposition of assets as defined in this subparagraph. Transfers, etc., within the Corporate membership of the CTCC shall be disregarded for purposes of determining whether there has been a material diminution of assets, as will transfers between a Corporate CTCC member and a party that is not a Scientology-related entity for which the Corporate CTCC member receives fair market value in exchange. The involuntary loss or diminution in value of assets not attributable to the action or conduct of any Scientology-related entity shall not be considered in determining whether there has been a diminution of assets to which this subparagraph applies.

ix. Discharge of guaranty. Upon a material breach by the Service of any of its obligations under this Agreement, the guaranty under this paragraph A.3.d. shall be null and void as to amounts not yet collected, and no amounts may be collected that would otherwise have been due under the guaranty prior to such material breach. For purposes of this subparagraph, only the following actions will be considered to be a material breach by the Service:

a. the filing of suit to collect sanctions under [section VI](#) from any corporate or individual CTCC member without engaging in substantive discussion with the CTCC of the parties' respective positions as required by paragraph H.3.a.iii of section VI;

b. the issuance of a Regulation, Revenue Ruling or other pronouncement of general applicability providing that fixed donations to a religious organization other than a church of Scientology are fully deductible unless the Service has issued previously or issues contemporaneously a similar pronouncement that provides for consistent and uniform principles for determining the deductibility of fixed donations for all churches including the Church of Scientology;

c. the knowing, negligent or willful disclosure of information described in [section V](#), [paragraph A.4](#) of this Agreement in violation of any provision of [section 6103](#), to the

extent such disclosure is not the result of a good faith but erroneous interpretation of section 6103; or

d. the knowing, negligent or willful failure to disseminate the [Church Fact Sheet](#) as required by paragraph 5 of the Settlement Agreement attached hereto as [Exhibit IV-5](#); or

e. examining, assessing or seeking to collect any tax liability of any Scientology-related entity for any taxable year ending before January 1, 1993, unless the Service terminates such action and refunds or credits any amounts collected within 90 days of notice from the CTCC, or unless [section IX, paragraph H](#). applies.

e. Liability for penalties.

The CTCC shall be liable for the penalties set forth in [section VI](#). of this Agreement.

4. Actions of CTCC.

David Miscavige will act as the initial Chairman of the CTCC. He may be removed from this office and replaced by another individual CTCC member by majority vote of the CTCC members. The CTCC shall promptly notify the Service of any change in the Chairmanship. The Chairman may act on behalf of the CTCC, and bind the CTCC, except where a specific provision of this Agreement requires the action of more than one CTCC member.

B. Financial Reporting Requirements.

1. Special Accounting Procedures.

a. In general.

The special accounting procedures of this section IV. paragraph B. apply to each corporate member of the CTCC, CSFSSO, NEP, BPI, Church of Scientology Celebrity Centre International, and to (i) any other Scientology-related entity formed under the laws of, and operating primarily in, a country other than the United States for any year in which such entity has United States source gross receipts (including contributions) in excess of \$1,000,000 in value, and to (ii) any Scientology-related entity formed under the laws of, and operating primarily in, the United States for any year in which it has either (a) gross assets, or (b) gross receipts in excess of \$10,000,000 in value. The entities with respect to which special accounting procedures apply are collectively called the "reporting entities."

b. Special accounting procedures -- operational aspects.

i. Required procedures. The CTCC shall retain a qualified CPA (defined below) to perform the agreed-upon procedures enumerated in Exhibit IV-2 of this Agreement with respect to each of the reporting entities. Following its performance of these procedures, the qualified CPA so selected shall report to the CTCC and to the Service in the form prescribed by the American Institute of Certified Public Accountants for engagements to apply Agreed-Upon Procedures (SAS No. 35, Special Reports -- Applying Agreed-upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement) (hereinafter referred to as "Special

Purpose Reports"). These Special Purpose Reports shall include a summary of any exceptions the qualified CPA discovers through the agreed-upon procedures.

ii. Foreign entities. To the extent that the particular reporting entity is required under the laws of a foreign jurisdiction to have certified financial statements or an accountant's review prepared annually, those reports (converted to the English language and to United States dollars) may, in general, be substituted for the special purpose reports enumerated in Exhibit IV-2. However, the special purpose reports relating to fundraising and overseas cash flows must be performed for all reporting entities. In addition, this section IV. paragraph B.1.b.ii. shall not apply unless: (a) the financial statements are prepared by an accountant that otherwise meets the definition of Qualified CPA under this Agreement (or their equivalent under the laws of the foreign jurisdiction in which the accountant is admitted to practice); (b) the financial statements include a balance sheet, income statement accountants' report, and accountants' notes to the financial statements, (statements of cash flows and management letters shall be included to the extent they are prepared); and, (c) the foreign entity remains a reporting entity for purposes of special procedures to be performed in connection with other reporting entities.

c. CPA's reports--In general.

The CTCC shall also deliver to the Service two (2) copies of the special purpose reports and management letter (described below) for all reporting entities for each year during the Reporting Period. The Special Purpose Report must state that the Special Purpose Report was conducted in accordance with SAS no. 35, Special Reports--Applying Agreed-upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement and this Agreement.

d. CTCC responsibilities.

The CTCC shall cause all reporting entities to fully and timely cooperate with the Qualified CPA in the preparation and submission of the Special Purpose Reports.

e. Selection of a qualified CPA.

The CTCC shall be responsible for the selection of a qualified CPA that meets the requirements set forth below. When selecting a CPA, the CTCC should consider, among other matters:

- i. The qualification of CPAs available to do the work;
- ii. The CPA's experience in performing audits of churches and other nonprofit organizations; and
- iii. The CPA's ability to timely complete and submit the Special Purpose Report.

f. Definition of a qualified CPA.

i. In general. For the first two taxable years to which this section IV. paragraph B. applies (i.e., for calendar years 1993 and 1994), the CPA must be a Big Six firm or, in the alternative, another firm agreed to by the Service. For the last taxable year to which this paragraph B. applies (i.e., 1995), the CPA may be designated by the CTCC, provided that the firm or CPA is (i) a qualified CPA and (ii) is acceptable to the Service. The Service consents to the

designation of Richard D. Clark for the last year, provided that, at that time, he otherwise meets the requirements of being a qualified CPA.

ii. Requirements for qualified CPA. For purposes of this Agreement, any CPA that meets the qualifications criteria of this section IV. paragraph B.1.f. and enters into a Special Purpose Report agreement with the CTCC, Corporate CTCC members and all reporting entities, and that complies with the provisions of this Agreement, will be considered a qualified CPA and acceptable to the Service.

(a) Certification. The CPA must be a CPA in good standing in a state or the District of Columbia. The CPA does not have to be licensed by the state in which the Corporate CTCC members are located; however, the CPA must abide by the rules and regulations of professional conduct promulgated by the accountancy board of the state in which the Corporate CTCC members are located.

(b) Practice before the Service. The CPA (or any accountant working for such CPA who is participating in the required reporting process under this Agreement) may not be, or have been, under suspension from practice before the Service.

(c) Independence. The CPA must be independent. A CPA will be considered independent if the CPA meets the standards for independence contained in the AICPA Code of Professional Conduct in effect at the time the CPA's independence is under review. In addition, the CPA may not, at the time engaged (or at any time prior to that time), be a Scientology-related individual, a Scientology-related entity or a WISE sublicensee.

(d) Peer review requirement. The CPA must belong to and participate in a peer review program, and must have undergone a satisfactory peer review conducted by the AICPA's Division for CPA Firms. After the initial peer review has been performed, the CPA must submit to a peer review of the accounting and audit practice every three years or at such additional times as designated by the peer review executive committee.

g. CTCC's approval of selection.

The CTCC's approval of a CPA must be recorded in writing and state the following:

- i. The CPA meets the Service's qualifications to perform the Special Purpose Report required by this Agreement; and
- ii. The CTCC, the Corporate CTCC members and all reporting entities and CPA will enter into a Special Purpose Report agreement in accordance with the provisions of this Agreement.

h. Notification of selection.

When the selection of a CPA by the CTCC has been made, the CTCC must notify the Service, in writing, prior to the execution of the Special Purpose Report agreement (as defined below) and in no event less than 90 days prior to the end of the taxable year for which the change of CPA is effective. The Service will notify the CTCC, in writing, within 30 days of the date of receipt of such notice, if the selection of a CPA is not satisfactory. A copy of the Special Purpose Report agreement, or any amendment to such agreement, is to be provided to the

Service as soon as feasible after the execution thereof. One copy of the current Special Purpose Report agreement must be maintained in the CPA's workpapers or permanent file.

i. First qualified CPA.

The Service has been notified that the CTCC has selected Nanas, Stern, Biers, Neinstein and Co., 9454 Wilshire Boulevard, Beverly Hills, California, 90212 as its first qualified CPA. The Service approves of such selection. Notwithstanding paragraph h., the Special Purpose Report Agreement with Nanas, Stern, Biers, Neinstein and Co. shall be provided to the Service no later than with the First Annual Report due under this Agreement.

j. Special Purpose Report agreement.

The CTCC, Corporate CTCC members and all reporting entities shall enter into a Special Purpose Report agreement with the CPA that specifically complies with all of the following:

i. The CTCC, Corporate CTCC members, all reporting entities and CPA acknowledge that the agreed-upon procedures are being performed and the Special Purpose Report is being issued in order to enable the CTCC, the Corporate CTCC members and the reporting entities to comply with the provisions of the Code and this Agreement.

ii. The CTCC, Corporate CTCC members and all reporting entities acknowledge that this Agreement provides that if the CTCC fails to have a Special Purpose Report performed and documented in compliance with this Agreement, the CTCC and Corporate CTCC members are in violation of the provisions of this Agreement.

iii. The CPA represents that he meets the requirements under this Agreement satisfactory to the Service.

iv. The CPA will perform the agreed upon procedures in Exhibit IV-1 and will prepare the Special Purpose Report in accordance with the requirements of this Agreement.

v. The CPA will document the Special Purpose Report work performed in accordance with the professional standards of the AICPA and the requirements of this Agreement.

k. Special Purpose Report scope limitation.

The CTCC, Corporate CTCC members and reporting entities shall not limit the scope of the Special Purpose Report, nor suffer or permit the Special Purpose Report scope to be limited, to the extent that the CPA is unable to meet the Service's Special Purpose Report requirements.

l. Access to Special Purpose Report-related documents.

Pursuant to the terms of the Special Purpose Report agreement, the CPA must (at no charge to the Service):

i. retain all Special Purpose Report-related documents (including but not limited to CPA's reports, workpapers, and management letters) for a period of four years after the close of the taxable year for which each Special Purpose Report was prepared; and

ii. following the Service's request of, and the consent by, the CTCC,

- (a) make all Special Purpose Report-related documents available to the Service, and
- (b) permit the Service to photocopy all Special Purpose Report-related documents.

m. Required disclosures to CPA.

Prior to commencing the agreed upon procedures, the CTCC shall provide to the CPA a copy of all Scientology scripture concerning finances and accounting (e.g. the Treasury Division volumes) and any other written material relating to or involving the handling of funds by Church personnel in effect at that time. The CTCC also shall promptly provide to the CPA copies of any newly-issued materials on these subjects or any modification, amendment, or rescission of any existing material on the subject. In addition, the CPA is to be given a copy of the Agreement and any future amendments to the Agreement.

n. Submission of Special Purpose Reports.

The Annual Report shall include separate Special Purpose Reports for each reporting entity. These Special Purpose Reports are for the use of only the CTCC and the Service.

o. Submission of plan of corrective action.

The CTCC shall submit written comments to the Service on the exceptions and recommendations in the Special Purpose Reports and shall also submit to the Service: (i) a written plan for any corrective action taken or planned; and, (ii) comments on the status of any corrective action taken on previously reported exceptions and recommendations.

2. Internal financial reports.

a. As part of the Annual Report, the CTCC shall deliver a copy of the internally generated annual financial statements (either (i) income and expense statement, balance sheet, and all notes to financial statements or (ii) if such records are not generated in the normal course of church operations, then the adjusted trial balance and all adjusting journal entries) prepared for the internal use of the particular entity or other [Scientology-related entity](#) for the following entities.

Church of Scientology International [\[reference\]](#)

Religious Technology Center [\[reference\]](#)

Church of Spiritual Technology [\[reference\]](#)

Foundation Church of Scientology Flag Ship Service Organization [\[reference\]](#)

Church of Scientology Flag Service Organization, Inc. [\[reference\]](#)

Church of Scientology Western United States [\[reference\]](#)

Church of Scientology Religious Education College, Inc. [\[reference\]](#)

Church of Scientology Celebrity Centre International [\[reference\]](#)

Scientology Missions International [\[reference\]](#)

International Hubbard Ecclesiastical League of Pastors [[reference](#)]
Church of Scientology Religious Trust [[reference](#)]
Scientology International Reserves Trust [[reference](#)]
Flag Ship Trust [[reference](#)]
New Era Publications International ApS (including subsidiaries) [[reference](#)]
Bridge Publications, Inc. [[reference](#)]
Building Management Services [[reference](#)]
FSO Oklahoma Investments Corporation [[reference](#)]
World Institute of Scientology Enterprises [[reference](#)]
Church of Scientology Advanced Organization Saint Hill, Europe and Africa (CS AOSH EU&AF) [[reference](#)]
Church of Scientology, Inc. (CS AOSH ANZO) [no reference]
SOR Services (UK) Ltd. [[reference](#)]
SOR Services Ltd. (Cyprus) [[reference](#)]
Transcorp Services S.A. [[reference](#)]
San Donato Properties Corporation [[reference](#)]

In addition, internal annual financial statements as required above are to be provided for any Scientology-related entity not designated above (or in paragraph B.1.a. above) for any year in which it has either (a) gross assets (based on the greater of cost or fair market value) in excess of \$15,000,000 in value, or (b) gross receipts in excess of \$15,000,000 in value.

b. As part of each Annual Report, the CTCC also shall include a consolidation of the above internal reports in a master balance sheet, and income and expense statement prepared in the same manner as the consolidated financial data submitted with the Qualified Written Materials. These consolidations are to be done in accordance with reasonable accounting practices and consistently year to year. The Annual Report also shall include a separate consolidated balance sheet for the corporate CTCC members. Consolidating adjustments shall include, but are not limited to, liabilities and corresponding receivables between Corporate members of the CTCC. The nature of consolidating adjustments will be explained in the Annual Report. All amounts shall be reported in United States dollars.

c. As part of each Annual Report, the CTCC also shall include copies of audited financial statements (in the English language and U.S. dollars) for the International Association of Scientologists, Foundation International Membership Services Administrations, Membership Services Administration (U.K.), Ltd., and the U.S. IAS Members' Trust.

3. Report on central reserves transactions and balances.

As part of the Annual Report, the CTCC shall deliver to the Service a summary of central reserves transactions containing information in similar format to the summary information that was provided as part of the Qualified Written Material, with the exception that the information included in the Annual Report need not contain a list of reserves transfers to non-

reserves accounts of the same Scientology-related entity. In this regard, for each year that this subparagraph applies, the Annual Report should contain a list of all expenditures (as described below) that have been made from the Church's central reserves system as described in the Qualified Written Material, or from the central reserves account of one Scientology-related entity into the central reserves account of another such entity. The list should include (i) the date of the expenditure, (ii) to whom the payment was made, (iii) by whom the payment was received, (iv) the purpose of the expenditure, and whether, and if so, why, in the opinion of the CTCC, this transfer furthers [Code section 501\(c\) \(3\)](#) purposes. For this purpose, the term "expenditure" includes, but is not limited to, grants, purchases, transfers, loans or repayments of loans, or other expenditures of assets under the control of the central reserves committee. In addition, the Annual Report shall include a beginning balance and a year-end balance showing the amount of cash and other assets in the Central Reserves.

4. Tax returns.

As part of the Annual Report, the CTCC shall provide a copy of each United States tax return (including information returns) and all United States tax forms filed by any Scientology-related entity. These returns may not be included in the Annual Report in electronic form unless agreed to by the parties. Forms W-2, 1099, 940, 941 and 941E need not be submitted under this paragraph. The Annual Report shall also include copies of the annual update on the group exemptions required by [Rev. Proc. 80-27, 1980-1 C.B. 677](#) and [Treas. Reg. Section 601.201\(n\) \(8\)](#).

5. Term.

Reporting under this section IV. paragraph B. is required for three taxable years, beginning with the 1993 Annual Report.

C. Fiduciary Reporting Requirements.

1. Compensation information.

For each calendar year in issue, the Annual Report shall contain the following information with respect to compensation paid certain individuals by Scientology-related entities:

a. The names and total compensation (as more fully described below) paid to each of the twenty natural persons with the highest amount of compensation during the calendar year in issue. For purposes of determining the highest paid individuals, the compensation of an individual includes amounts received from Scientology-related entities by the spouse of that individual. Where a spouse has such compensation, the spouse's name and the nature and amount of the compensation are to be separately listed. To determine those individuals for whom this paragraph requires disclosure, all compensation from all Scientology-related entities is to be aggregated. A husband and wife are to be treated as a single entry on this list (i.e., not as two highly paid individuals). In addition, any individual who is included in the list required in paragraph C.1.b. below is not to be included in this list.

b. The total compensation paid to each Individual CTCC member, as well as natural persons serving on the CTCC in a representative or At-Large capacity, and to (i) each such person's spouse, (ii) siblings of each such individual CTCC member (including compensation of each sibling's spouse), (iii) with respect to Individual CTCC members, each Individual CTCC

member's parents, and (iv) with respect to Individual CTCC members, each Individual member's children. The Annual report shall separately list the name and compensation of each such family member.

c. The Annual Report also shall include (i) copies of Forms W-2 and 1099 for each natural person listed whose compensation must be reported under paragraphs C.1.a. or C.1.b. and (ii) a description of any relationship (direct or indirect) between any Scientology-related entity and a natural person whose compensation must be reported under paragraphs C.1.a. or C.1.b. in which anything of value is exchanged. Thus, for example, if an individual or any member of that individual's family is a shareholder or holds another ownership interest in an entity that does business, or receives anything of value from any Scientology-related entity, the existence of such relationship and the facts relating to it are required to be disclosed in the Annual report. Under subparagraph (ii) of this paragraph c., reporting is not required if the stock or ownership interest is less than five percent.

d. For purposes of the Annual Report, the term "compensation" includes anything of value provided (directly or otherwise) by, or attributable to, any Scientology-related entity. Whether an item is considered "compensation" is determined without regard to whether that item of value is includible in the individual's gross income for purposes of reporting or taxation. "Compensation" includes, but is not limited to, the following: (i) wages or salary (including any bonus or overtime pay); (ii) other payments (as an independent contractor, provider of goods or services, or otherwise), including but not limited to any interest, dividend or other corporate distribution; (iii) gross commissions; (iv) the value of any deferred compensation (qualified or non-qualified and valued without regard to any risk of forfeiture, vesting or other restriction); (v) the value of any beneficial interest in any trust attributable in any fashion to contributions made by or on behalf of any Scientology-related entity (valued without regard to any risk of forfeiture, vesting or other restrictions); (vi) any fringe benefit (other than de minimis fringes excludible under sections 132 (a) (4) and 132 (e) of the Code; (vii) the highest balance of any loan or loans outstanding from any Scientology-related entity to the individual at any time during the year in question; (viii) any personage or rental allowance; and, (ix) the amount of any reimbursed expenses (business or otherwise). For the purposes of (ix), compensation from this source may be ignored if the individual received in the aggregate less than \$10,000 for all reimbursements in the year.

To the extent compensation is provided in a form other than wages or salary, such compensation is to be listed separately with a short description of which category it falls within. If a fair market value is not available, the type of compensation should be listed along with an explanation that will be helpful to understand its nature and possible worth.

Finally, if compensation is received from more than one Scientology-related entity, compensation should be listed separately for each such entity.

2. Modifications of organizational documents.

The Annual Report shall describe any amendment or other change in any organizational document of any of the following organizations: (i) any organization whose tax-exempt status is recognized under this Agreement, other than subordinate entities under the group exemptions provided in [section III. paragraph C.](#); (ii) those entities described in paragraph B.2 or D.2, below. For purposes of this paragraph, an organizational document includes any

document that is necessary for inclusion in a Form 1023. Thus, articles of incorporation, articles of association, constitution, bylaws, trust instrument or indenture or similar document, including any board or trustee resolution interpreting such document are organizational documents.

3. Reporting of any dividend payment with respect to any entity.

The Annual Report shall disclose any dividend or other distribution with respect to its stock (including, but not limited to any distribution in liquidation or reorganization of the company) paid during the year by any Scientology-related entity formed as a company or corporation. This report will include the facts surrounding the distribution. Reporting under this paragraph shall also occur if a payment is made in the nature of a dividend or a return of capital by any other Scientology-related entity (e.g., a partnership distribution).

4. Reporting of any ownership change with respect to any entity.

The Annual Report shall disclose any change in ownership or control of any Scientology-related entity. Thus, if such entity is a stock company or trust, any changes in the legal or beneficial ownership of the stock or trust must be reported. With respect to trusts, nonstock or nonprofit organizations, any change in the ability to any other entity or individual to appoint the board or trustees must be reported.

5. Reporting on creation of new entities.

The Annual Report shall include an update disclosing the existence of any entity meeting the definition of Scientology-related entity that has not been previously disclose to the Service. The report must include, for example, every new entity formed after December 31 of the prior taxable year (or with respect to the first Annual Report, after November 1, 1992) other than a subordinate entity included under one of the group exemptions provided in [section III, paragraph C](#). The following information must be included for purposes of disclosure in the Annual Report: (i) name and address; (ii) employer identification number, if applicable; (iii) the nature of its purposes and activities; (iv) the officers, trustees and/or directors of the entity; (v) a balance sheet as of the end of the taxable year; (vi) an income and expense statement as of the end of the taxable year; (vii) the ownership of the entity; (viii) the relationship of the entity to any other Scientology-related entity, and, (ix) an explanation of whether, and to what extent, the new entity or any of its operations has, or may have, an effect on the tax-exempt status of any other Scientology-related entity, or, in the alternative, the specific reasons the CTCC believes that the creation and operation of the new entity have no such effect.

6. Reporting of any ecclesiastical modification or the restructuring of any entity.

The Annual Report shall include any changes to the ownership (e.g., corporate organization) of any Scientology-related entity or to the ecclesiastical management structure of the Church, including, but not limited to, any changes in the structure outlined in the booklet entitled "The Command Channels of Scientology" as submitted in the Qualified Written Material. Changes in the personnel who hold positions within the ecclesiastical structure need not be included within the report required under this paragraph, other than those who serve on the CTCC.

7. Reporting of certain asset transfers and expenditures.

- a. The Annual Report shall disclose the transfer, grant, contribution, loan, payment for services, gift, voluntary or involuntary conversion, exchange, sale or any other disposition of assets (hereinafter an "expenditure") by one Scientology-related entity to another Scientology-related entity within the taxable year at issue, if the transfer involved assets (including trademarks, copyrights, cash, securities, mortgages, etc.) with an aggregate value, reflecting the greater of cost or market, of \$1,000,000 or more.
- b. The Annual Report shall contain the fact of and the steps taken to ensure expenditure responsibility with respect to a specific expenditure if that expenditure is made by one or more Scientology-related entities recognized as tax-exempt under [section III](#) of this Agreement to a noncharitable beneficiary and if, in any single taxable year, such payments to the specific noncharitable recipient exceed \$25,000. For purposes of this paragraph, the term expenditures does not include a transaction with a person other than a Scientology-related entity or a Scientology-related individual for which fair market value is received in return.
- c. The Annual Report disclosure required under [section IV. paragraph C.7.a. and C.7.b.](#) is to contain the following information: (i) the name and address of both transferor and transferee; (ii) the amount and nature of the assets transferred; (iii) the purpose of the transfer; and, (iv) whether, and if so, why, in the opinion of the CTCC, this transfer furthers [Code section 501\(c\)\(3\)](#) purposes.
- d. Reserves transaction reported under [paragraph B.3.](#) need not be reported again under this paragraph C.7.

8. Reporting of certain asset transfers that diminish the assets of the corporate members of the CTCC.

The Annual Report shall disclose the transfer, grant, contribution, loan, payment for services, gift, voluntary or involuntary conversion, exchange, sale or any other disposition of assets by one or more Corporate CTCC members where within the calendar year at issue, the transfer involved assets (including but not limited to trademarks, copyrights, cash, securities, mortgages, etc.) with an aggregate value of ten-percent or more of the aggregate total value (reflecting the greater of cost or market) of all Corporate CTCC members as of the beginning of the taxable year at issue. The report is to contain the following information: (i) the name and address of both transferor and transferee; (ii) the amount and nature of the assets transferred; (iii) the purpose of the transfer; and, (iv) whether, and if so, why, in the opinion of the CTCC, this transfer furthers [Code section 501\(c\)\(3\)](#) purposes. Transfers, etc. within the Corporate membership of the CTCC shall be disregarded for reporting purposes under this paragraph C.8.

9. Reporting of any amendment of any directive concerning the treatment of funds.

The Annual Report shall disclose the issuance, modification, amendment, or rescission of any written material relating to or involving the handling of funds by Church personnel. The Annual Report also shall include copies of relevant materials and an explanation of the reasons for change. Under this paragraph, disclosure is required with respect to all directives, including but not limited to HCO Policy Letters, Executive Directives and similar items.

Thus, for example, disclosure under this paragraph would be required in the event of any modification to the book entitled Treasury Division, Volume 3 of the *Organization Executive Course* (by L. Ron Hubbard).

10. Activity or inaction in contravention of this Agreement.

The CTCC shall use its best efforts to include with the Annual Report information relating to any action or inaction by any Scientology-related entity or individual that occurred during the year that is in contravention of, or inconsistent with, any provision of the Code, Treasury regulations or this Agreement, including the recognition of exemption for certain entities contained [in section III. paragraphs B. and C.](#) and the certifications contained in [section IV. paragraph D.](#) Information disclosed under this paragraph shall include an explanation of the action or inaction involved, the name of the individual or entities involved, the date of the act or inaction, and whether, and to what extent, the CTCC has investigated, including any findings and any actual or planned corrective action with respect thereto.

11. Update on operational modifications.

The Annual Report is also to contain an update on the operational modifications that are required to be undertaken [under section IV. paragraph E.](#)

12. Education and training issues under [Code section 170.](#)

The Annual Report shall disclose any modifications to the training side of the "Scientology Classification, Gradation and Awareness Chart". Such disclosure shall contain sufficient information to enable the Service to determine whether the new or modified training courses should be afforded the same treatment as that set forth in [section VII., paragraph B.](#)

13. Term of fiduciary reporting under section IV.c.

The term of the fiduciary reporting required under this paragraph C. is three taxable years, beginning with 1993.

D. Certifications.

1. In general.

By executing this Agreement, the Church signatories in their trust or corporate capacities, and their subscribing officers or trustees individually, certify under penalty of perjury the following to the best of their knowledge, information and belief:

- a. that all Scientology-related entities are in compliance with the Code, Treasury regulations and other Service pronouncements of general guidance and applicability;*
- b. that the Church signatories and CTCC will use their best efforts to educate Scientology parishioners as to the nondeductibility of donations to foreign organizations and the provisions of [section VII. paragraph B.](#);*
- c. that no Scientology-related entity or Scientology-related individual (in his or her capacity as such) has, after 1986, knowingly committed any act of fraud or criminal conduct that might constitute a violation of public policy endangering the tax-exempt status of any Scientology-related entity (assuming for the limited purpose of this*

paragraph that all Scientology-related entities are otherwise described in [Code section 501\(c\)\(3\)](#); and

d. that all Qualified Written Material submitted in connection with this Agreement was correct and truthful as of the date submitted through the date of signature of this Agreement, as supplemented by the Forms 1023 filed in August and September 1993.

2. Section 501(c)(3).

The Annual Report shall include a certification to the Service from CTCC members, in their Corporate, At-large, or Individual status, that Scientology-related entities recognized as described in [Code section 501\(c\)\(3\)](#) under section III, paragraphs B. or C. will operate in conformity with Code section 501(c)(3) and the regulations there under and that other Scientology-related entities will operate in a manner that does not jeopardize the tax-exempt status of any Scientology-related entity so recognized. Specifically, but not by way of limitation, such certification shall include the following Scientology-related entities: Church of Scientology Religious Education College Inc., Church of Scientology Advanced Organization Saint Hill Europe and Africa, Church of Scientology, Inc. (Advanced Organization Saint Hill Australia, New Zealand and Oceania), RTC Australia, San Donato Properties Corporation, Transcorp Services, S.A., MCL Services, N.V., Media Storage, Inc, Mile High, Inc., Galaxy Productions, Inc., Mastertech, Inc., Nesta Investments, Ltd., and FSO Oklahoma Investments Corporation.

3. Continuing certifications.

The CTCC must certify in the Annual Report that the certifications described in this paragraph D. continue to be correct, to the best of their knowledge and belief. Such certification shall be substantially in the form of [Exhibit IV-3](#) hereto. In addition, the CTCC must certify as part of the Annual Report that nothing has occurred that would significantly impair (directly or indirectly) the efficacy of the guaranty contained in [section IV. paragraph A.3.d.](#)

E. Operational modifications.

The Church signatories and the CTCC will assure the following:

1. All payments or tithes for ecclesiastical management services to Scientology-related entities, including but not limited to parishioner contributions in connection with the ministry of religious services, payments or tithes for purchase of religious materials, payments or tithes for ecclesiastical management services, and transfers to reserve entities, are to be invoiced by the Scientology-related entity actually intended to perform the services and that receives such payment or tithe, irrespective of whether such payments or tithes are initially deposited into the performing entity's bank account.

2. Deposit of Funds.

- a. U.S. dollar-denominated checks drawn on U.S. banks and credit card advices payable to Scientology-related entities for serves or goods to be provided within the United States shall first be deposited within the United States.*

b. Checks and credit card advices payable to Scientology-related entities in currencies other than U.S. dollars may be couriered overseas prior to deposit, provided that there are in place appropriate financial controls to ensure the processing, handling and tracing of such deposits to the account of the Scientology-related organization to which such payment is drawn.

c. To the extent U.S. dollar-denominated checks drawn on non-U.S. banks payable to Scientology-related entities for services or goods to be provided within the United States are physically received outside the United States, they may be first deposited outside the United States. To the extent such payments are physically received inside the United States they may be couriered overseas prior to deposit, provided that there are in place appropriate financial controls to ensure the processing, handling and tracing of such deposits to the account of the Scientology-related organization to which such payment is drawn.

d. U.S. dollar-denominated checks and credit card advices payable to Scientology-related entities for goods and services provided outside the United States may be deposited outside of the United States.

e. Any other funds of a Scientology-related entity received from sources within the United States may be couriered overseas for deposit only if, and only to the extent, there are in place appropriate financial controls to ensure the processing, handling and tracing to such deposits to the account of the Scientology-related organization to which such payment is drawn.

3. Management and accounting procedures (whose material provisions are attached to this Agreement as Exhibit IV-3) are to be implemented to assure that all commissions or similar payments from Scientology-related entities to individual fundraisers are properly reported to the Service by the payor, and that contributions collected by individual fundraisers are not commingled with other funds held by such individual. Further, no payments from one Scientology-related entity shall be made to another such entity by way of being made to an individual, whether that individual is an agent of either Scientology-related entity or otherwise.

4. As of the date of this Agreement, parishioner advance donations to CSFSO and CSWUS shall no longer be transferred to United States Parishioners Trust and/or the Trust for Scientologists. Nor shall USPT or TFS receive any such payments directly from parishioners.

5. United States Parishioners Trust and the Trust for Scientologists shall be dissolved as soon as practicable consistent with the terms of their respective trust instruments. The assets (including mortgages) contained in such trusts as of the date of this Agreement shall, along with earnings thereon, be transferred to one or more corporate members of the CTCC in accordance with their documents of dissolution, except that the ship mortgage on the M/V Freewinds presently held by the Trust for Scientologists may be distributed to Flag Ship Trust. Documents to effectuate the dissolution are attached as Exhibit IV-4. Dissolution shall be completed within 12 months of the date of this Agreement.

6. Norman F. Starkey, as Trustee of Author's Family Trust B, shall, no later than December 31, 1993, effectuate the transfer of substantially all of the corpus and income in Author's Family Trust B, including all the shares of Author Services, Inc. ("ASI") as permitted under

the will of L. Ron Hubbard to the Church of Spiritual Technology ("CST") without consideration. Mr. Starkey, as trustee, may retain sufficient cash and securities to cover any remaining actual or contingent liabilities of the Trust until those liabilities have been resolved or satisfied. The members of the CTCC shall use their best efforts to assure that such transfer is accomplished.

7. The members of the CTCC shall use their best efforts to effectuate, by no later than December 31, 1993, the dissolution of Theta Management Limited. All property and functions of Theta will be transferred without consideration to IASA.

8. The members of the CTCC shall, no later than December 31, 1993, effectuate the dissolution of the Church of Scientology Freewinds Relay Office, Inc., FSS Organization N.V., and majestic Cruise Lines, Inc., and the transfer of all of their assets and functions to the Foundation Church of Scientology Flag Ship Service Organization.

9. The members of the CTCC shall, no later than December 31, 1993, effectuate the dissolution of International Publications Trust. The shares of New Era Publications International, ApS shall be transferred without consideration to Church of Scientology International.

10. The members of the CTCC shall, no later than December 31, 1995, effectuate the dissolution of WISE, Inc. and the transfer of all of its assets, including but not limited to its rights to the Scientology religious marks, to the Inspector General Network.

F. Treatment of Information Exchanges.

1. All information provided by the CTCC under this section IV. shall constitute return information for purposes of [Code section 6103](#). No information constituting Code section 6103 information, separately or collectively, shall constitute a return or other information for purposes of [Code section 6104 \(a\)\(1\)\(A\)](#) and 6104 (b).

2. The Service may seek further information regarding the application of any provision of the Code, this Agreement or the Settlement Agreement attached as Exhibit IV-5, to any Scientology-related entity (whether or not such inquiry is raised by reason of information contained in the Annual Report) from the CTCC. Because the Service is obtaining information from the CTCC, as opposed to one or more churches, the provisions of [Code section 7611](#) do not apply. However, if at any time the CTCC believes that the Service is seeking information that should be obtained under the provisions of Code section 7611, then the CTCC shall so notify the Service, in writing, of its views and unless the pending request for additional information from the Service otherwise meets the definition of routine request or other exception under Code section 7611 and the regulations thereunder, the provisions of that section shall apply as of the date the Service contacts the specific taxpayer involved.

3. The Annual Report or other information request under this Agreement including follow-up questions under paragraph F.2., or any other contacts with the CTCC do not constitute an examination under [Code section 7611](#) or an inquiry or examination under any other section of the Code (including [sections 7602](#) and [7605](#)), unless such contact is either (i) designated by the Service specifically as a Church Tax Inquiry letter under section 7611 or a notice of examination under section 7602, or (ii) the CTCC notifies the Service that it considers the contact to be subject to section 7611 or section 7602.

V. Treatment of the Code Section 6104 Public Inspection File and Certain Other Materials.

A. Code section 6104 Public Inspection File.

1. The [Code section 6104](#) public inspection file for [Church of Scientology International](#) shall include a Form 1023 with information and financial data for taxable years 1989, 1990, and 1991. In addition, the Code section 6104 public inspection file for CSI shall include agreed upon portions of the Qualified Written Material. These documents and the resulting determination letter shall be the only materials considered as the application, supporting papers and determination information described in Code section 6104(a)(1)(A) with respect to Church of Scientology International.

2. The [Code section 6104](#) public inspection file of each Scientology-related entity (other than Church of Scientology International) to be recognized as exempt under section III. paragraph B. hereof shall include the individual Form 1023 with information and financial data for taxable years 1989, 1990, and 1991, previously submitted by the Church. With respect to the parent Scientology-related entities listed in section [III. paragraph C.](#), the Code section 6104 public inspection file shall include a group exemption request with information for taxable years 1989, 1990, and 1991, as previously submitted by the Church. Each such application shall incorporate by cross-reference the application and Code section 6104 public inspection file of Church of Scientology International as described in paragraph A.1. These documents, including Church of Scientology International's Code section 6104 public inspection file incorporated by reference and the resulting determination and ruling letters, shall be the only materials considered as the application, supporting papers and determination information described in Code section 6104(a)(1)(A) for each remaining Scientology-related entity to be recognized as exempt pursuant to this Agreement.

3. The Service shall close without action exemption determination applications by the following [Scientology-related entities](#):

Religious Technology Center ("RTC") [[reference](#)]

Church of Scientology International ("CSI") [[reference](#)]

International Hubbard Ecclesiastical League of Pastors ("IHELP") [*no reference*]

The Way to Happiness Foundation ("TWTH") [[reference](#)]

Association for Better Living and Education ("ABLE") [[reference](#)]

Church of Scientology Celebrity Centre Dallas [*no reference*]

Church of Scientology of Georgia [[reference](#)]

Church of Scientology Mission of New Jersey [*no reference*]

RTC, CSI, IHELP, TWTH and ABLE submitted revised and updated Forms 1023 and are being recognized as exempt under paragraph B. of section III. of this Agreement. The

remaining three entities are being recognized as subordinate entities under group exemptions being recognized under paragraph C. of section III. of this Agreement.

4. All information submitted in connection with the closed applications as described in paragraph A.3., and all information submitted in connection with this Agreement other than that listed in paragraph A.1. and A.2., including but not limited to (i) all Qualified Written Material information not specifically included as part of the [Code section 6104](#) public inspection file of Church of Scientology International pursuant to paragraph A.1., and (ii) this Agreement itself, shall be considered to be return information described in [Code section 6103\(b\)\(2\)](#).

B. Disclosure of Information by the Service.

1. The Service shall maintain the information described in [section V. paragraph A.4.](#) of this Agreement in the office of the Assistant Commissioner and shall disseminate such information within the Service only to the extent the Assistant Commissioner determines it necessary for the administration of the Code (including actions taken in administering this Agreement).

2. The Service shall not disclose any information described in [section V. paragraph A.4.](#) of this Agreement, including but not limited to this Agreement itself, to any third party other than as permitted under [Code section 6103](#) or otherwise as permitted under applicable law or under this Agreement.

3. The Service agrees to use its best efforts to notify the CTCC of any litigation against the Service by a third party to compel production of information described in [section V. paragraph A.4.](#) of this Agreement.

C. Disclosure of Information by the CTCC.

1. The CTCC may use information described in [section V. paragraph A.4.](#) only to the extent necessary to carry out its obligations hereunder to inform Church parishioners of the provisions of section VII of this Agreement.

2. The CTCC may use information described in [section V. paragraph A.4.](#) only to the extent it determines it is necessary in connection with any tax matter by any state or local governmental body in the United States or by any foreign governmental body. To minimize the extent of such disclosure, the Service agrees to certify the effect of relevant provisions of this Agreement to any other governmental taxing authority upon request by the CTCC and following consultation with the CTCC concerning the text of such certification. This paragraph C.2. of this section V in no way limits the obligations or discretion of the Service with the respect to governmental taxing authorities under section 6103.

3. The CTCC shall not produce information described in [section V. paragraph A.4.](#) of this Agreement, including but not limited to this Agreement itself, except to the extent allowed under this section V. It is the specific intent of the Parties that such materials, including but not limited to this Agreement itself, shall not be the subject of discovery in any civil litigation between a third party and any Scientology-related entity or individual, and the CTCC agrees not to produce such information in such circumstances except to the extent disclosure is compelled by a court of competent jurisdiction after exhaustion of all available judicial

review. The parties agree that the provisions of this paragraph C. of this section V. are the result of shared concerns regarding confidentiality. Except in carrying out the provisions of paragraph C. of this section V., the CTCC agrees not to assert or otherwise publicly characterize this Agreement in a manner that would indicate that the Service has required that information under this Agreement be kept confidential.

D. Proceeding Under Agreement.

Notwithstanding any other paragraph of this section V, information described in [section V. paragraph A.4.](#) of this Agreement may be disclosed in any proceeding to construe or enforce any provision of this Agreement or in any proceeding relating to the federal tax liability of any Scientology-related entity. In the event disclosure becomes necessary under this paragraph D., the parties agree to use their best efforts to file all information described in section V. paragraph A.4. under seal so that it does not become part of the public judicial or administrative record.

E. Disclosure Following Inquiries.

The CTCC agrees that the Service, in response to inquiries, may characterize the information in the [section 6104](#) public inspection files and may acknowledge the existence of an agreement that has settled a variety of longstanding issues between the Church and the Service, including exemptions from tax as well as a variety of outstanding tax and litigation matters. In addition, in response to such inquiries, the Service may disclose that there is a Closing Agreement concerning the nature and extent of permissible disclosure by the Service in light of the requirements of [Code section 6103](#) and acknowledge the existence and extent of tax information authorizations submitted pursuant to this Agreement and the Settlement Agreement.

F. Correction of Misstatements.

Either the Service or the CTCC may disclose information described in [section V. paragraph A.4.](#) of this Agreement in the event of a misstatement of fact or mischaracterization published or disclosed about the contents of, the effects of, or reasons for, this Agreement or matters related thereto. Information described in section V. paragraph A.4. may be disclosed for this purpose only to the extent necessary to correct the misstatement or mischaracterization and only if the Assistant Commissioner and the CTCC have consulted prior to such disclosure.

G. Term of Undertaking.

[Paragraph A. of this section V.](#) applies as long as the Service retains any of the information described in paragraph A. The remaining paragraphs of this section V. apply only through December 31, 1999.

VI. Penalty Provisions During Transition Period and Other Procedural Matters.

A. Introduction: Purpose and Scope of Sanctions.

This section VI sets forth sanctions to provide assurance to the Service that the Church Tax Compliance Committee will ensure that all Scientology-related entities will operate in a manner consistent with [Code section 501\(c\)\(3\)](#) and will carry out specified obligations under this Agreement during the transition period. The provisions of this section are in addition to, and not in lieu of, any other enforcement measures available to the Service under this Agreement, the Code, at law or in equity. Thus, notwithstanding any provisions of this section or this Agreement in its entirety, the Service may question its recognition or exemption of any Scientology-related entity for any taxable year subsequent to 1992 (and for previous years if this Agreement is not final by reason of [section IX, paragraph H.](#)) or take any other action permitted under the Code, without regard to whether the Service has asserted (successfully or otherwise) any penalty under this section VI. Nevertheless, it is intended that the consensual sanctions set forth in this section are to provide the Service with intermediate sanctions for activities or conduct not in accordance with the provisions of Code section 501(c)(3) for which revocation of recognition of exemption may be too harsh or otherwise inappropriate as a sanction, and that the Service will notify and consult with the CTCC prior to pursuing any sanctions under this Agreement.

B. Self-Dealing Transactions.

1. First-tier penalties.

a. On Individual CTCC member who is a self-dealer or who is related to a self-dealer.

Under this Agreement, there is a penalty imposed on each knowing act of self-dealing between a disqualified person and a Scientology-related entity. The penalty shall equal 5 percent of the amount involved with respect to the act of self-dealing for each taxable year (or part thereof) in the sanction period (defined below). The penalty imposed by this paragraph shall be paid by each Individual CTCC member: (i) who is the disqualified person who engaged in such act of self-dealing; or (ii) who is related (as described in [section VIII, paragraph N.2. through 9.](#), including the attribution rules contained therein) to any person that participates in the act of self-dealing. No penalty shall be due under this paragraph B.1.a. if and to the extent that an act of self-dealing has been corrected within the correction period.

b. On Individual CTCC members with knowledge of transaction.

In any case in which a penalty is imposed by section VI, paragraph B.1.a., there is an additional penalty imposed on the participation of any Individual CTCC member in an act of self-dealing between any disqualified person and a Scientology-related entity, knowing that it is such an act, equal to 2 1/2 percent of the amount involved with respect to the act of self-dealing for each taxable year (or part thereof) in the sanction period, unless such participation is not willful and is due to reasonable cause. The penalty imposed by this paragraph shall be paid by any Individual CTCC member who participated in the act of self-dealing. No penalty

shall be due under this paragraph B.1.b. if and to the extent that an act of self-dealing has been corrected within the correction period.

2. Second-tier penalties.

a. On Individual CTCC member who is a self-dealer or who is related to a self-dealer.

In any case in which a first tier penalty is imposed by section VI. paragraph B.1. on an act of self-dealing by a disqualified person with a Scientology-related entity and the act is not corrected within the sanction period, there is hereby imposed a penalty equal to 200 percent of the amount involved. The penalty imposed by this paragraph shall be paid by each Individual CTCC member: (i) who is the disqualified person who engaged in such act of self-dealing; or (ii) who is related (as described in [section VIII.](#) paragraph N.2 through 9., including the attribution rules contained therein) to any person that participates in the act of self-dealing. No penalty shall be due under this paragraph B.2.a. if and to the extent that an act of self-dealing has been corrected within the correction period.

b. On Individual CTCC member refusing to correct.

- i. In any case in which a second tier penalty is imposed under section VI. paragraph B.2.a., if any Individual CTCC member refuses to agree to part or all of the correction, a penalty is imposed equal to 50 percent of the amount involved. The penalty imposed by this paragraph shall be paid by each Individual CTCC member who refused to agree to part or all of the correction.
- ii. In addition, in the event that correction does not occur by reason of any officer or director of any Scientology-related entity refusing to agree to part or all of the correction, there is a penalty equal to 50 percent of the amount involved. The penalty imposed under this paragraph shall be paid by each Individual CTCC member.
- iii. No penalty shall be due under this paragraph B.2.b. if and to the extent that an act of self-dealing has been corrected within the correction period.

3. Self-dealing.

a. In general.

For purposes of this section VI., the term "self-dealing" means any direct or indirect:

- i. sale or exchange, or leasing, of property between a Scientology-related entity and a disqualified person;*
- ii. lending of money or other extension of credit between a Scientology-related entity and a disqualified person;*
- iii. furnishing of goods, services, or facilities between a Scientology-related entity and a disqualified person;*
- iv. payment of compensation (or payment or reimbursement of expenses) by a Scientology-related entity to a disqualified person;*

v. transfer to, or use by or for the benefit of, a disqualified person of the income or assets of a Scientology-related entity; and

vi. payment by any Scientology-related entity of any penalty imposed under this section VI. upon any Individual CTCC member.

b. Special rules.

For purposes of section VI. paragraph B.3. a.--

i. the transfer of real or personal property by a disqualified person to a Scientology-related entity shall be treated as a sale or exchange if the property is subject to a mortgage or similar lien which the Scientology-related entity assumes or if it is subject to a mortgage or similar lien which a disqualified person placed on the property within the 10-year period ending on the date of the transfer;

ii. the lending of money by a disqualified person to a Scientology-related entity shall not be an act of self-dealing if the loan is without interest or other charge (determined without regard to [Code section 7872](#)) and if the proceeds of the loan are used exclusively for purposes specified in [Code section 501\(c\) \(3\)](#);

iii. the furnishing of goods, services, or facilities by a disqualified person to a Scientology-related entity shall not be an act of self-dealing if the furnishing is without charge and if the goods, services, or facilities so furnished are used exclusively for purposes specified in [Code section 501\(c\) \(3\)](#);

iv. the furnishing of goods, services, or facilities by a [Scientology-related entity](#) to a disqualified person shall not be an act of self-dealing if such furnishing is made on a basis no more favorable than that on which such goods, services, or facilities are made available to the general public; and

v. the payment of compensation (and the payment of reimbursement of expenses) by a Scientology-related entity to a disqualified person for personal services which are reasonable and necessary to carrying out the exempt purpose of Scientology-related entities shall not be an act of self-dealing if the compensation (or payment or reimbursement) is not excessive.

c. Exceptions.

Notwithstanding section [VI. paragraphs B.3.a. and B.3.b.](#), the following shall not be treated as an act of self-dealing:

i. The provision to a disqualified person of goods, services and facilities by a Scientology-related entity on the same basis as generally provided to other members of the Sea Organization, with commensurate adjustments for the ecclesiastical rank and responsibilities of the disqualified person. The goods, services and facilities described in this [section VI. paragraph B.3.c.i.](#) include all benefits generally provided by Scientology-related entities to members of the Sea Organization, including but not limited to room and board, medical care, uniforms, child care and education, use of corporate vehicles and ministry of religious services.

ii. *The provision of insurance coverage by any [Scientology-related entity](#) to any disqualified person against a claim of misconduct in his or her capacity as an executive of any Scientology-related entity (but not including any penalty imposed under this section VI. paragraph B. upon any Individual CTCC member), as well as reasonable litigation costs and attorneys' fees incurred in defending any such claim.*

iii. *The direct payment, without the use of insurance, by any Scientology-related entity of a disqualified person's personal liability arising from any claim of misconduct in his or her capacity as an executive of any Scientology-related entity (excluding a penalty imposed under this section VI. upon any Individual CTCC member), as well as payment or reimbursement of reasonable litigation costs and attorney's fees incurred in defending against any such claim (including defense against a penalty imposed under this section VI. upon any Individual CTCC member), provided that the board of the Scientology-related entity that is making the expenditure and the other Individual CTCC members determine, upon appropriate review of the circumstances and consultation with outside legal counsel, that the Individual CTCC member acted reasonably under the circumstances, in the best interest of the relevant Scientology-related entity or entities, and without knowledge or reason to believe that such action would be in violation of any applicable law or of this Agreement.*

iv. *Any transaction for which the disqualified person and the affected Scientology-related entity have obtained guidance in advance from the Service that the proposed transaction would be in the best interest of the continued operation of the affected Scientology-related entity and will not be penalized under this Agreement. Any request for such guidance shall be sent to the Assistant Commissioner as provided in [section IX](#) of the Agreement. If after 120 days no response to the request has been received, the transaction described in the ruling request shall be deemed not to create a situation in which the penalties of this section VI will be applied.*

v. *Theft, embezzlement or other misappropriation of property or funds from a Scientology-related entity is an act of self-dealing only if, and only to the extent, that a disqualified person participates in such misconduct.*

d. Amount involved.

For purposes of this section VI., paragraph B., the term "amount involved" means, with respect to any act of self-dealing, the greatest of (i) the amount of money and the fair market value of the other property given; (ii) the amount of money and the fair market value of the other property received; or (iii) the sum of \$100,000. Notwithstanding the preceding sentence, in the case of services described in [section VI. paragraph B.3.iv.](#), the amount involved shall be the greater of \$100,000 or the excess compensation. In addition, in the case of a lease or loan, the amount involved shall be the greatest of (i) the fair market interest rate or rental, (ii) the amount actually charged, or (iii) \$100,000. For purposes of determining the amount involved, the fair market value in the case of the penalties imposed by section VI. paragraph B.1.a., shall be determined as of the date on which the act of self-dealing occurs; and in the case of the penalties imposed by section VI. paragraph B.1.b., shall be the highest fair market value during the sanction period.

C. Noncharitable Expenditures.

1. First-tier penalties.

a. On Corporate CTCC members.

Under this section VI. paragraph C., a penalty is imposed on each noncharitable expenditure (as defined in [section VI. paragraph C.3.](#)) of any Scientology-related entity described in the [Code section 501\(c\) \(3\)](#). The penalty shall be equal to 10 percent of the amount involved as defined in paragraph C.5.. The penalty imposed by this paragraph shall be paid on a joint and several basis by the CTCC Corporate members. No penalty shall be due under this paragraph C.1.a. if and to the extent that a taxable expenditure has been corrected within the correction period.

b. On Individual CTCC members.

There is hereby imposed on the agreement of any Individual CTCC member to the making of an expenditure or undertaking an activity, knowing that it is a noncharitable expenditure, a penalty equal to 2 1/2 percent of the amount involved, unless such an agreement is not willful and is due to reasonable cause. The penalty imposed by this paragraph shall be paid by any Individual CTCC member who agreed to the making of the expenditure or undertaking the activity. No penalty shall be due under this paragraph C.1.b. if and to the extent that a taxable expenditure has been corrected within the correction period.

2. Second-tier penalties.

a. On Corporate CTCC members.

In any case in which a first tier penalty is imposed by section VI. paragraph C.1.a. by reason of a noncharitable expenditure and such expenditure or activity is not corrected within the sanction period, there is hereby imposed a penalty equal to 100 percent of the amount involved. The penalty imposed by this paragraph shall be paid on a joint and several basis by the CTCC Corporate members. No penalty shall be due under this paragraph C.2.a. if and to the extent that a taxable expenditure has been corrected within the correction period.

b. On Individual CTCC members.

- i. In any case in which an additional penalty is imposed by paragraph C.2.a., if an Individual CTCC member refused to agree to part or all of the correction, there is hereby imposed a penalty equal to 50 percent of the amount involved. The penalty imposed by this paragraph shall be paid by each Individual CTCC member who refused to agree to part or all of the correction.
- ii. In addition, in the event that correction does not occur by reason of any officer or director of any Scientology-related entity refusing to agree to part or all of the correction, there is a penalty equal to 50 percent of the amount involved. The penalty imposed under this paragraph shall be paid by each Individual CTCC member.
- iii. No penalty shall be due under this paragraph C.2.b. if and to the extent that a taxable expenditure has been corrected within the correction period.

3. Noncharitable expenditure

a. Noncharitable expenditure.

For purposes of this section VI., the term "noncharitable expenditure" means:

i. any amount paid or incurred by a Scientology-related entity described in [Code section 501 \(c\) \(3\)](#):

(a) to an entity or individual unless:

(1) the recipient entity is described in Code section 501 (c) (3), or

(2) the payment will directly further a charitable purpose and the Scientology-related entity exercises expenditure responsibility with respect to such payment as required and in accordance with paragraph C.3.b.

(b) any amount paid or incurred by a Scientology-related entity for any purpose other than one specified in [Code section 170 \(c\) \(2\) \(B\)](#).

ii. any amount paid or incurred by a Scientology-related entity as a special noncharitable expenditure as defined in paragraph C.4.

b. Expenditure responsibility.

The expenditure responsibility referred to in [section VI. paragraph C.3.a.i. \(a\) \(1\)](#) means that the Scientology-related entity is responsible to exert all reasonable efforts and to establish adequate procedures during the transition period:

i. to see that the payment is spent solely for the charitable purpose for which made,

ii. to obtain full and complete reports from the recipient on how the funds are spent, and

iii. to make full and detailed reports on such expenditures to the Service as part of the Annual Report described in [section IV paragraph C.7](#).

Expenditure responsibility is required under this section VI. paragraph C.3.b. only to the extent the CTCC is required to report with respect to its expenditure responsibility as part of the Annual Report under [section IV., paragraph C.7](#).

c. Governing principles.

In determining whether a particular expenditure is a noncharitable expenditure, the Service shall be guided by principles of [section 53.4945-6 \(b\) \(2\) of the Treasury Regulation](#) (regardless of whether the expenditure involves an administrative expense), under which it is neither the policy nor the prerogative of the Service to substitute its judgment for the reasonable exercise of business judgment by executives of the affected Scientology-related entity.

4. Special noncharitable expenditure.

For purposes of this section VI., the term "special noncharitable expenditure" means any amount paid or incurred by a Scientology-related entity or Scientology-related individual in connection with the following:

- a. Any act or omission that any CTCC member knew would impair the efficacy of the guaranty of collection set forth in [section IV. paragraph A.3.d.](#) of this Agreement.*
- b. The diminution of assets in violation of [section IV. paragraph A.3.d.viii.](#)*
- c. Any expenditure by a Scientology-related entity that has not been recognized as tax exempt under [section III.](#) of this Agreement or by any Scientology-related individual, if such expenditure jeopardizes the tax-exempt status of any Scientology-related entity recognized under [section III.](#) of this Agreement as described in [Code section 501 \(c\) \(3\).](#)*
- d. The conduct or support of litigation by a Scientology-related entity or a Scientology-related individual against the Service or any present or former Service employee in violation of [section II. paragraph C.4. or C.5.](#) of this Agreement.*
- e. The financial support by a Scientology-related entity or Scientology-related individual of a tax refund claim against the Service in violation of [section VII. paragraph G.](#)*

5. Amount involved.

For purposes of this section VI. paragraph C., the term "amount involved" as it relates to the penalties provided under this section imposed on a noncharitable expenditure means:

- a. For the penalties imposed under this section VI. paragraph C. (except as provided below with respect to certain of the special noncharitable expenditures and noncharitable activities described in paragraph C.4.), the "amount involved" shall be the greater of (1) the amount paid or incurred in connection with a noncharitable expenditure or (2) the sum of \$25,000.*
- b. For the penalties imposed by reason of special noncharitable expenditure defined in paragraph C.4.a., the "amount involved" is equal to the greater of (1) the difference between the assets of the CTCC Corporate members before the impairment of the guaranty and the assets of the CTCC Corporate members subsequent to the impairment, or (2) the sum of \$25,000.*
- c. For the penalties imposed by reason of special noncharitable expenditure defined in paragraph C.4.b., the "amount involved" is equal to the greater of (1) the excess value of the assets over 10-percent of the difference between the assets of the CTCC Corporate members before the transfer and the assets of the CTCC Corporate members subsequent to the transfer, or (2) the sum of \$25,000.*
- d. For the penalties imposed by reason of special noncharitable expenditure or noncharitable activity defined in paragraphs C.4.d. and C.4.e., the "amount involved" is equal to the greatest of (1) the number of staff hours of Service or Department of Justice attorneys required for the year to respond to any litigation, multiplied by \$100,*

(2) the cost to indemnify the Service and the United States in any litigation for the year and for all costs including any damages, or (3) the sum of \$25,000.

D. Reporting Obligations.

1. Penalty on Corporate CTCC members.

A penalty is imposed jointly and severally on the Corporate CTCC members in the event of certain failures in providing the Annual report.

a. In the case of a failure to submit the Annual Report required under section IV. paragraph A.3.a. of this Agreement by the date and in the manner prescribed therefor (determined with regard to any extension of time for filing), there shall be paid \$250 for each day until the submission of such report.

b. In the case of a failure to include within the Annual Report any of the information required to be shown under this Agreement or to show information that is materially correct, there shall be paid by the Corporate CTCC members \$250 for each day during which such failure continues.

The maximum penalty under this section VI. paragraph D.1. with respect to any one Annual Report shall not exceed \$75,000.

2. Penalty on Individual CTCC members.

Upon a failure to submit an Annual Report in a timely and complete fashion, the Service may make a written demand on the CTCC specifying therein a reasonable future date by which the Annual Report shall be submitted (or the missing or correct information furnished) for purposes of this paragraph.

a. Failure to comply with demand.

If the CTCC fails to comply with any demand under paragraph D. 2. on or before the date specified in such demand, there shall be paid by each Individual CTCC member \$250 for each day after the expiration of the time specified in such demand during which such failure continues. The maximum penalty imposed under this paragraph on all Individual CTCC members for failures with respect to any one Annual Report shall not exceed \$75,000 per Individual member.

b. Application of penalties for failure to provide information.

Each failure to include with the Annual Report information required under any single subparagraph of section IV. paragraph B. or section IV. paragraph C. of this Agreement shall be treated as a separate failure to provide information and shall be subject to a separate penalty or penalties under this section VI., except that the \$75,000 maximum applies to the Annual Report as a whole and, therefore, is not increased by reason of multiple failures to comply within the same Annual Report.

3. Exception for reasonable cause.

No penalty shall be imposed under this section VI. paragraph D. with respect to any failure if the CTCC shows that such failure is due to reasonable cause.

4. Exception for inability to certify specific information.

If the CTCC is unable to certify any matter as required under this Agreement due to an actual or potentially noncompliant act or acts or failure to act, no penalty shall be imposed under this section VI. paragraph D. with respect to the failure to provide such certification, provided that:

- a. the CTCC makes the required certifications with respect to all but those actual or potentially noncompliant acts,*
- b. the CTCC takes appropriate and timely steps to determine whether a potentially noncompliant act is in fact noncompliant,*
- c. the CTCC discloses all noncompliant acts as soon as possible under the circumstances, and currently discloses that it is investigating a particular act or acts that may be noncompliant,*
- d. the CTCC takes appropriate and timely steps to correct all noncompliant acts, and*
- e. the CTCC reports to the Service with respect to the correction of noncompliant acts as soon as possible under the circumstances.*

E. Joint and Several Liability and Certain Penalty Limitations for Individual CTCC Members.

1. The Corporate CTCC members shall be jointly and severally liable for payment of the penalties imposed by section VI. paragraphs C.1.a., C.2.a., and D.1. The penalties on the Individual CTCC members are to be paid by the specific Individual CTCC member subject to the penalty.
2. The maximum amount of any penalty imposed on any Individual CTCC member under section VI. with respect to (1) any one act of self-dealing under paragraph B., (2) any one noncharitable expenditure under section VI. paragraph C., or (3) deficiencies in the Annual Report under section VI., paragraph D., shall not exceed the lesser of (i) the individual CTCC member's total compensation for the taxable year from all Scientology-related entities, or (ii) the sum of \$50,000 each taxable year, except that the maximum penalty on an individual CTCC member charged with an act of self-dealing in no event shall be less than the sanction imposed for that act.
3. No single act or expenditure by a Scientology-related entity shall be subject to multiple penalties under paragraphs B.1.b, C.1.b, and/or D.2, or multiple penalties under paragraphs B.2.b, C.2.b, and/or D.2. (for example, an expenditure constituting both an act of self-dealing under paragraph B. and a noncharitable expenditure under paragraph C.). Such an act or expenditure shall be subject to the applicable penalty in paragraph B., C., or D. that results in the highest penalty amount.

F. Additional Penalty.

If any person or entity becomes liable for any penalty under paragraphs B. or D. of this section VI. by reason of any act or failure to act which is not due to reasonable cause and either:

1. such person has theretofore been liable for a penalty under any of such paragraphs; or

2. such act or failure to act was both wilful and flagrant;

then such person shall be liable for an additional penalty equal to the amount of the applicable first tier penalty.

G. Third-Tier Penalty.

1. If there has been (i) willful, repeated and flagrant misconduct, and (ii) a failure to correct such misconduct, giving rise to penalties under paragraphs B. and/or C. of this section VI., there is imposed on the Corporate members of the CTCC a penalty equal to \$50,000,000.

2. For purposes of this section VI., various terms are defined as follows:

a. the phrase "flagrant misconduct" means:

(i) For any act of self-dealing under section VI. paragraph B., the intentional diversion of assets from one or more Scientology-related entities that is not corrected within the correction period.

(ii) For any noncharitable expenditure under paragraph C., the intentional use of assets from one or more Scientology-related entities for any purpose other than one specified in [Code section 170 \(c\) \(2\) \(B\)](#) that is not corrected within the correction period.

b. The phrase "diversion" means the transfer of assets by a Scientology-related entity that constitutes the private inurement of its net earnings to the benefit of a private shareholder or similarly-situated individual.

c. The phrase "repeated," with respect to misconduct, means more than two occurrences of conduct resulting in the imposition of second-tier sanctions under this Agreement.

H. Procedures for Penalty Determinations

1. a. First-tier Penalty

i. With respect to a claimed penalty arising from information in the Annual Report, the Service shall notify the CTCC in writing of its belief that an event subject to penalty under paragraphs B.1., C.1. or D. of this section VI. has occurred within 180 days of receipt of the Annual Report. Such notice (hereinafter the "initial notice") shall identify the expenditure, act (or failure to act) or transaction the Service believes warrants the imposition of penalties and an explanation of its reasons for this conclusion. The notice shall specify the exact provisions of the applicable law or of this Agreement the Service believes has been violated and shall, subject to the requirements of [Code section 6103](#), cite and append evidence in its possession that supports its belief.

ii. Upon receipt of the initial notice, the CTCC shall investigate the matter and report its conclusions back to the Service within 90 days of receipt of the initial notice.

iii. If, following receipt of the CTCC's report under section VI. paragraph H.1.a.(ii), or in the event of a failure to respond, the Service still believes that an event warranting imposition of a penalty has occurred and has not been corrected, the Service will provide a conference of right with the Assistant Commissioner to undertake a discussion on the merits of the respective positions of the CTCC and the Service.

iv. If, following the conference of right under paragraph H.1.a.(iii) of this Section VI., the Service still believes that an event warranting imposition of a penalty has occurred and is not in the process of being corrected, the Service will issue a final determination of penalty and send notice thereof to the CTCC. Such notice shall specify the exact provisions of applicable law or of this Agreement the Service believes have been violated and shall, subject to the requirements of [Code section 6103](#), cite and append evidence in its possession that supports its belief, including its reasons for not accepting the arguments and evidence submitted by the CTCC in support of its position that no violation has occurred.

v. With respect to a claimed penalty arising from information in the Annual Report, the Service must issue a final determination of first-tier penalty to the CTCC no later than one year from the date the Service receives the CTCC report described in [section VI. paragraph H.1.a.\(2\)](#).

vi. If the CTCC continues to disagree with the Service's determination of a first-tier penalty notice, it shall so notify the Service in writing. Upon receipt of such notice, the Service may sue under paragraph H.1.e. to collect the first-tier penalty. Until the completion of such suit, including the exhaustion of any appeals or other proceedings for appellate review, the CTCC need not pay any first-tier penalty determined by the Service.

b. Second-tier penalties.

If an event subject to a first-tier penalty under this Agreement has not been corrected with the sanction period as defined in [section VIII. P.](#), the Service may issue a notice of final determination of second-tier penalty. The Service must issue any notice of final determination of second-tier penalty no later than 90 days after expiration of the sanction period. No second-tier penalty shall be due under this Agreement if and to the extent that a taxable expenditure has been corrected within the correction period.

c. Other penalties.

In the case of penalties other than those described in paragraphs H.1.a. or H.1.b. of this determination of penalty to the CTCC.

d. No notice of determination, initial or final, may be made under this Agreement if the notice is not sent by certified mail to the CTCC by the 120th day after the end of the transition period. In addition, no penalty may accrue for any period after December 31, 1999. However, provided that the initial notice was mailed prior to this date, the penalty asserted may be collected and enforced notwithstanding the expiration of the transition period.

e. Any penalty imposed under this section VI. is payable upon notice and demand, and may be collected by the Service through suit. The Service and the Corporate, Individual and At-large CTCC members agree that all parties shall have the right to specific performance (in addition to all other remedies available under the Code, at law, in equity or under this Agreement).

f. Should correction, as defined in [section VIII., paragraph S.](#), occur within the correction period, as defined in section [VIII. paragraph T.](#), no penalty shall be collected under this section VI.

2. Interest.

In the event that any penalty under this section VI. is asserted by the Service and the CTCC fails to make payment within 90 days of the final notice of penalty, interest on the amount of such penalty shall accrue from the date of issuance of such final notice to the date of payment at the Federal short-term applicable rate (as set forth and applied in Code sections 6621(b) and 6622).

3. Non-assertion of penalties.

a. If it is established to the satisfaction of the Service, in the exercise of its reasonable discretion, that any event subject to penalty has been correction during the correction period for such event, then any penalty imposed with respect to such event (including interest) shall not be asserted, and if asserted, shall not be collected, and, if collected, shall be promptly credited or refunded to the extent permitted by law.

b. The Service shall not assert any penalty under this section VI. when the CTCC has established to the Service's satisfaction in the exercise of its reasonable discretion, that:

i. what would otherwise constitute a transaction or event warranting imposition of penalties caused no financial detriment to charitable interests;

ii. the transaction of expenditure has been corrected;

iii. the CTCC has acted promptly and in good faith to correct any such transaction or expenditure and prevent its recurrence; or

iv. the penalty is disproportionate to the severity of the transaction or expenditure.

VII. Treatment of Parishioners' Contributions

A.

The Service acknowledges its obligation to interpret and apply the "gift or contribution" requirement of [Code section 170\(c\)](#) equally and consistently to the fundraising practices of all religious organizations that receive fixed donations from parishioners in connection with participation in worship and similar religious rituals or services.

B.

Until the earlier of (i) December 31, 1999, (ii) the issuance or adoption by the Service of audit policies or practices in the examination of tax returns utilizing uniform and consistent principles for determining the deductibility of fixed donations to all churches, or (iii) until legislation is enacted which affects the deductibility of such fixed donations, the Service agrees not to contest the deductibility of Church of Scientology fixed donations in connection with qualified religious services. The phrase "qualified religious services" means those

appearing on the "Scientology Classification, Gradation and Awareness Chart." If the taxpayer produces an accurate receipt or other documentation from the donee Church of Scientology substantiating (1) the amount of the taxpayer's fixed donation and (2) the qualified religious services with respect to which the donation was made, then, for as long as this paragraph B. of this section VII. applies, as set forth in [paragraph F.](#), the full amount of the fixed donation for these services shall be treated as a charitable contribution under [Code section 170](#) and shall not be challenged on that basis. Nothing in the preceding sentence affects other requirements, including substantiation, as provided by law. In the absence of such documentation, the Service also may independently determine the amount of and the extent to which the taxpayer's fixed donations were made in connection with qualified religious services. Individual taxpayers' contributions to churches of Scientology not in connection with religious services or any substantial return benefit remain fully deductible if other requirements under the law are met. Payments to churches of Scientology for books or other religious articles are not deductible except to the extent that a dual payment exists.

C.

To apply paragraph B. for taxable years before 1993, and in consideration of the other provisions of this agreement, the Service will settle all outstanding controversies with individual Church of Scientology parishioners involving the deductibility of their fixed donations under [Code section 170](#) on a no-change basis (subject to substantiation of payment for qualified religious services and compliance with other requirements of the Code). Any future deficiency controversies with individual taxpayers involving the deductibility of Church of Scientology fixed donations for taxable years beginning before 1993 also will be resolved on a no-change basis on the section 170 issue subject to substantiation of payment for qualified religious services and compliance with other requirements of the Code. This process will be implemented as follows:

1. The Office of Chief Counsel, Internal Revenue Service will enter into stipulated decision documents with the taxpayers listed on [Exhibit VII-I](#) (or authorized representatives) to carry out this paragraph in the cases pending before the United States Tax Court. Upon notice and request of the CTCC, the office of Chief Counsel will enter into a similar stipulated decision document in any future case that becomes docketed in the Tax Court with respect to a taxable year beginning before 1993. The stipulated decision documents will reflect an allowance of charitable contribution deductions for Church of Scientology fixed donations in the full amount of the payments substantiated as being paid for qualified religious services as provided in paragraph B. above. The stipulated decision documents also will identify as overpayments any credible or refundable amounts paid by the taxpayers for the years at issue, provided that the Tax Court has jurisdiction to determine the existence and amount of such overpayment.
2. The Service will issue administrative refunds for the full amount of the tax that is attributable to the fixed donations to churches of Scientology for qualified religious services, plus interest, to the taxpayers in the following cases:

Powell v. United States, No. CV 90-8271 (S.D. Fla.) Nieves v. United States, No. CV 90-4211 (S.D. N.Y.)

Following the issuance of the administrative refund, the taxpayers will dismiss with prejudice their respective cases.

3. In the case of a refund claim for a taxable year beginning before 1993 that is not barred by the statute of limitations and is not the subject of a docketed deficiency cases before the Tax Court or a refund cases before a District Court or the Court of Federal Claims at the time of the execution of this Agreement, the taxpayers shall be entitled to an allowance of 80 percent of his or her fixed donations in connection with qualified religious services, as provided in paragraph B. and the claim shall be treated accordingly. The Office of Chief Counsel shall request the United States Department of Justice to enter into a stipulation with taxpayer's counsel (or taxpayer) in any future case seeking a refund of income taxes for taxable years beginning before 1993 based on the Service's disallowance of charitable contribution deductions for Church of Scientology fixed donations for which the statute of limitations has not expired, in accordance with the preceding sentence. See, however, the CTCC's obligation not to promote such claims as provided in paragraph G.

4. For any refund controversy described in subparagraph 3., above, the provisions of paragraph B. shall remain open until the Service mails a notice of final disallowance of such refund claim.

5. If the Service is in compliance with the provisions of subparagraphs 1-3, above, and the taxpayer refuses the Service's offer to provide a stipulation or settlement in resolution of the fixed donation issue of the taxpayer/parishioner to the Church of Scientology as provided herein, then, notwithstanding any other provision of his section VII., the Service shall not be bound by this paragraph as to that taxpayer (and that year for which there is no agreement) and shall not thereafter be bound to the 80/20 dual payment percentage as to that taxpayer for that tax year. Nothing in this paragraph prevents the Service, at its election, from stipulating or settling on any other basis (or proceeding in any manner) with any taxpayer if the taxpayer declines to settle in accordance with this section VII.

6. This paragraph C. shall apply to all pending and future administrative cases in examination, appeals, or collection for taxable years beginning before 1993.

7. All overpayments resulting from the stipulations or judgments provided in subparagraphs 1. through 3., above, shall be promptly credited or refunded under applicable provisions of the Code (including section 6611) and regulations.

D.

To apply paragraph B. for taxable years after 1992, the Service shall prepare and transmit instructions to all appropriate IRS functions and Offices at the National, Regional and District level and to IRS Service Center explaining their obligations to carry out paragraph B. of this section VII. In particular, those instructions shall direct the various Service functions not to disallow any portion of deductions for Church of Scientology fixed donations in connection with qualified religious services on the ground that the payments are not charitable contributions, until the earliest of (i) December 31, 1999, (ii) the issuance by Service of the audit policies or practices described in paragraph B. (ii) or (iii) until legislation is enacted which affects the deductibility of such fixed donations. Nothing in the paragraph prevents the Service, at its election, from stipulating or settling on any other basis (or proceeding in any

manner) with any taxpayer of the taxpayer declines to settle in accordance with this section VII.

E.

The Service also agrees to withdraw, obsolete or supersede, Rev. Rul. 78-189 no later than April 1, 1994, irrespective of whether the audit policies or practices described in paragraph B. (ii) are ever issued.

F.

1. Except as provided in subparagraph 2., below, the Service shall apply paragraph B. to all pending and future administrative cases in examination, appeals, or collection for taxable years beginning after 1992 through taxable years ending before January 1, 2000.

2. If the Service implements the audit policies or practices described in paragraph B. (ii) for a taxable year ending before January 1, 2000, then the service shall allow individual taxpayers charitable contribution deductions for no less than 80 percent of their Church of Scientology fixed donations in connection with qualified religious services, as defined in paragraph B., to the extent substantiated as provided in paragraph B., for taxable years ending before January 1, 2000.

3. If, prior to January 1, 2000, the Service has not issued or adopted audit policies or practices described in paragraph B. (ii), the parties agree to meet to discuss further agreements or actions that may be undertaken to implement paragraph A. in the spirit of this entire Agreement.

G.

While recognizing that all individual Scientologists not barred by law or agreement are entitled to file claims for refund to recover amounts covered by this settlement and that the CTCC may inform Church parishioners of the provisions of section VII of this Agreement, the CTCC agrees not to promote or encourage individual Scientologists to file claims for refund of taxes for the taxable year 1993.

H.

Individual taxpayers making fixed donations to churches of Scientology shall be considered to be third-party beneficiaries of this section VII. and shall be entitled to enforce its terms in any administrative or judicial proceeding. Such individual taxpayers shall not be charged with the receipt of taxable income by virtue of any of the provisions of this agreement.

I.

The CTCC shall use its best efforts to have Scientology parishioners agree to the stipulations and settlements as provided in this section VII.

J.

If the Service either holds a meeting regarding the deductibility of fixed donations to religious organizations and invites religious organizations to participate or solicits comments from

religious organizations on the subject, the Service shall invite the Church of Scientology to participate or to supply comments on the same basis as the other religious organizations.

VIII. Definitions.

For purposes of this Agreement:

A. Code

"Code" means the Internal Revenue Code of 1986 and the regulations thereunder, as amended from time to time.

B. Entity

"Entity" includes any corporation, limited liability company, trust, association, committee, partnership, or unincorporated organization, as well as any "person" (other than an individual), as defined in Treas. Reg. sec. 301.7701-1 through -4.

C. Scientology-related entity

An entity is a "Scientology-related entity" if that entity is described in one or more of the paragraphs set forth below:

1. An entity is a Scientology-related entity if it is a signatory to this Agreement or is identified in [section III., paragraphs B. or C.](#) or [section IV., paragraph D.2.](#) of this Agreement or [Exhibits III-1 through III-35](#) of this Agreement.
2. An entity is a Scientology-related entity if it delivers religious services to parishioners in a manner prescribed by the works of L. Ron Hubbard and as authorized (directly or indirectly) by Religious Technology Center, Church of Scientology International or other entity described in another paragraph as a Scientology-related entity. Thus, for example, all Class V churches, Continental organizations, CSFSSO, CSFSO, CSWUS, Saint Hill or other advanced organizations and missions are Scientology-related entities.
3. The publications organizations discussed at page 1-21 through 1-27 of the letter to John Burke, Monique Yingling dated June 29, 1992, (the "June Submission") and part of the Qualified Written Material are Scientology-related entities. Thus, for example, Bridge Publications, Inc., and New Era Publications International ApS, as well as their related subsidiaries or affiliates, are Scientology-related entities. Pages 1-21 through 1-27 are attached as Exhibit VIII-1 to this Agreement.
4. The social benefit and other public benefit entities discussed at pages 1-28 through 1-42 of the June submission along with all subsidiaries, subordinate chapters, subordinate organizations, or sublicensees thereof (e.g., organizations that are permitted to use particular names, copyrights, service marks, and/or technologies) are Scientology-related entities. Thus, for example, Citizens Commission on Human Rights, National Commission on Law Enforcement and Social Justice, Scientology Defense Fund Trust, Association for the Better Living and Education, Applied

Scholastics Incorporated, Narconon International, The Way to Happiness Foundation, and the Foundation for Religious Freedom are Scientology-related entities. Pages 1-28 through 1-42 are attached as Exhibit VIII-2 to this Agreement.

5. Any entities subject to the ecclesiastical direction or general guidance of Church of Scientology International or Religious Technology Center, directly or indirectly, including but not limited to any trusts, that hold assets (including but not limited to intellectual property and mortgages) for any other Scientology-related entity or for the advancement or protection of the Scientology religion whether or not those entities were discussed at pages 1-43 through 1-56 of the June submission are Scientology-related entities. This definition does not include the trust or estate of any parishioner who has made an intervivos or testamentary transfer of assets to the Church. This definition does not include financial institutions that are not owned (directly or indirectly) in whole or in part by any entity that otherwise meets the definition of Scientology-related entity under another subparagraph of this paragraph VIII. C. This definition does not include (i) any fiduciary that is not a Scientology-related entity or a Scientology-related individual (ii) the employee of any such fiduciary, (iii) any escrow agent holding assets of a Scientology-related entity under and escrow arrangement of a strictly temporary nature, (iv) any trustee under a deed of trust upon real property to secure the debt of a Scientology-related entity (v) any person acting under the power of attorney to Scientology-related entity, provided that any such fiduciary described in (i) through (v) above, and is nor otherwise a Scientology-related entity under paragraph of this section VIII, paragraph C. Pages 1-43 through 1-56 are attached as Exhibit VIII-3 to this Agreement.

6. Any entity directly or indirectly involved in, or related to, the ownership and /or operation of the M.V. Freewinds including those listed at pages 1-57 through 1-59 of the June submission are Scientology-related entities. Thus, for example, the Foundation Church of Scientology Flag Ship Service Organization, Flag Ship Trust, Transcorp Services S.A., San Donato Properties Corporation and MCL Services N.V. are Scientology-related entities. Pages 1-57 thorough 1-59 are attached as Exhibit VIII-4 to this Agreement.

7. Any membership entity primarily composed of Scientologists, whether or not listed on pages 1-60 through 1-62 of the June submission, including but not limited to the International Association of Scientologists, Danish Association of Scientologists, and European Association for Scientology, along with any entities performing the operations of (or holding the assents of) such organizations (including Foundation of International Membership Services Administration N.V., Membership Services administration (UK) Ltd and U.S. IAS Members' Trust), are Scientology-related entities. Pages 1-60 through 1-62 are attached as Exhibit VIII-5 to this Agreement.

8. Any entity that owns, (including, but not limited to, those entities listed below in this subparagraph C.8.), (sub) licenses to others to use, and/or has rights to (sub) license others to use what has been described in the Qualified Written Material as the Scriptures (the written and spoken words of L. Ron Hubbard on Scientology and Dianetics) or any technology, copyright, trademark or service mark held by RTC, CSI, CST, any publications organization (described in paragraph C.3 above), the Estate of L. Ron Hubbard or Author's Family Trust B, is a Scientology-related entity.

9. Any other entity licensed to use, or otherwise granted permission to use or employ, any copyright, service mark, or trademark that has been, is now (or shall in the future) be held or owned, directly or indirectly, by Religious Technology Center, Church of Scientology International, the Estate of L. Ron Hubbard, Author's Family Trust B or Church of Spiritual Technology, is a Scientology-related entity.

10. Any taxable or for-profit entity of which one or more Scientology-related entities and/or any of the trustees, directors and/or officers of any entity defined as a Scientology-related entity under this section VIII. paragraph C, separately or together, owned or had a beneficial interest of more than twenty-five percent is a Scientology-related entity. In addition, any non-profit entity of which one or more Scientology-related entities and/or any of the trustees, directors and/or offices of any entity defined as a Scientology-related entity under this section VIII. paragraph C, separately or together, control the voting power of, or have a beneficial interest of, more than twenty-five percent, is a Scientology, related entity. For purposes of this definition, any Individual or At-Large member of the CTCC shall be considered an officer of a Scientology-related entity.

11. For purposes of subparagraphs 4, 8, or 9, the term Scientology-related entity includes only those entities that are under the ecclesiastical direction or general guidance of CSI, directly or indirectly, and that are not owned in whole or in part by any entity that otherwise meets the definition of Scientology-related entity under another subparagraph of this section VIII. paragraph C.. Thus, by the way of example, the term Scientology-related entity generally does not include (I) sublicensees of the World Institute of Scientology Enterprises (hereinafter "WISE"), (ii) any entity that would not otherwise be described above, except that it has been licensed to publish or disseminate solely the fictional works of L. Ron Hubbard, and (iii) licenses of Applied Scholastics, Inc. that are not included as subordinate entities under its group exemption, as provided in [section III., paragraph 3.c](#) and listed on [Exhibit III-28](#) (or will be subordinate entities in the future) .

12. a. In general. The term Scientology-related entity generally includes an entity whether formed under the laws of the United States or of a country other than the United States, except to the extent other provisions of this Agreement expressly include only U.S. entities or expressly exclude non-U.S. entities.

b. Exception.

i. With respect to certain provisions of this Agreement, the term Scientology-related entity does not include an Excluded Foreign Scientology-related Entity. A Scientology-related entity is an Excluded Foreign Scientology-related Entity if it is formed under the laws of, and substantially all of its operations are in, a country other than the United States and it (a) is described in [section VIII, paragraph C.2](#) and is a Mission or Class V church; (b) is described in Section VIII, paragraph C.4; (c) is described in Section VIII, paragraph C.5, provided that it is not an entity that has as its primary function the holding of assets for the Church of Scientology; or (d) is described in Section VIII, paragraph C.9 but has neither annual gross receipts not gross assets in excess of \$15 million.

ii. To the extent a Scientology-related entity is otherwise specifically included in a provision (notwithstanding the fact that is an Excluded Foreign Scientology-related Entity), it is a Scientology-related entity for the specified purposes of the affected provision. Specifically, but not by the way of limitation, an Excluded Foreign Scientology-related entity with respect to the following provisions of this Agreement:

Section II.: paragraphs B.5., B.7 through B.9, C.1. through C.6, E.1., E.4.b. and F.

Section III.: Paragraph B.10

Section IV.: paragraphs A.3.d., B.1.a., B.1.f.ii. B.2.a., B.3., B.4., C.1., C.3., C.4., C.5., C.6., C.7.a.,C.7.b., C.10.,E.1., E.2.,E.3., and F.2.

Section V.: all

Section VI.: paragraph B.

iii. An Excluded Foreign Scientology-related Entity is excluded from the definition of Scientology-related entity with respect to the following provisions of this Agreement:

Section IV.: paragraphs A.3. (other than A.3.d.), D.1., D.2., D.3.

Section VI.: paragraph A, C (unless paragraph C.10. of section IV applies) and G.

Section IX.: paragraph A.

iv. With respect to other provisions of this agreement concerning procedural matters (such as reporting term limitations) that relate to the specific provisions referred to in [Section VIII, paragraph C. 12.b.ii.](#), [Scientology-related entity](#) also includes Excluded Foreign Scientology-related entity.

c. Limitation. paragraph 12.b. shall not apply to exclude from treatment as a Scientology-related entity any entity that otherwise meets the definition of Scientology-related entity under a subparagraph of this section VIII. paragraph C. other than subparagraphs 2.,4.,5., or 9.

13. If an entity is treated as a Scientology-related entity by reason of paragraph C.1. of this section VIII., then such entity shall be treated as a Scientology-related entity notwithstanding that one or more of the other subparagraphs of paragraph C. of this section VIII might otherwise apply to exclude such entity from being treated as a Scientology-related entity.

14. The term Scientology-related entity is not limited to those entities that are in existence as of the date of this Agreement but also includes those described in paragraph C. created after this Agreement is signed.

D. Scientology-related Individual

"Scientology-related Individual" means an individual rendering services to or on behalf of a Scientology-related entity as a staff member, agent officer, trustee, or attorney in fact of that Scientology-related entity. The term "Scientology-related individual" includes, without limiting the generality of the foregoing, Individual CTCC members, At-Large CTCC members and individuals serving on the CTCC as representatives of Corporate CTCC members. The term "Scientology-related individual" applies only to the extent that such individual is acting in his capacity as staff member or other service-provider to or on behalf of the Scientology-related entity.

E. Qualified Written Material

"Qualified Written Material" means any information designated as "Qualified Written Material" pursuant to paragraph 4 of the agreement between Church of Scientology International and the Service, executed on behalf of the CSI on May 5, 1992. This material was obtained as part of the discussions in which the Service requested information relating to the organizational structure and operations of the Church mostly by written requests dated May 4, 1992 and October 16, 1992, to which the Church responded in June and November of 1992, respectively, and in various other written responses.

F. Service

"Service" means the Internal Revenue Service, including but not limited to the Office of Chief Counsel. References to officers or employees (present or former) of the Service shall include, but not limited to, officers or employees (present or former) of the Officer of Chief Counsel.

G. Taxable year

"Taxable year" means calendar year.

H. Transition period

"Transition period" means taxable years 1993, 1994, 1995, 1996, 1997, 1998 and 1999.

I. Agreement

"Agreement" means this closing agreement.

J. CTCC

"CTCC" means the Church Tax Compliance Committee.

K. Church Signatories

"Church Signatories" means the following entities: Church of Scientology International, Religious Technology Center, Church of Spiritual Technology, Church of Scientology Religious Trust, Building Management Services, Church of Scientology Flag Service Organization, Inc. and the Church of Scientology Western United States.

L. Settlement Agreement

"Settlement Agreement" means an agreement entered into between the Church Signatories and the Service on even date herewith relating to the disposition of certain other matters between the parties attached hereto as Exhibit IV-5.

M. Annual Report

means the report compiled and submitted during the transition period by the CTCC as required under section IV of this Agreement.

N. Disqualified Person.

In General. The term "disqualified person" means with respect to a Scientology-related entity, any of the following persons:

1. an Individual CTCC member (within the meaning of section IV. paragraph A.2.c. of this Agreement);
2. A member of the family (as defined in paragraph 9) of an Individual CTCC member;
3. a corporation not recognized as exempt under [Code section 501 \(c\) \(3\)](#) of which any person described in [section VIII](#). paragraph N.1. or N.2. owns more than 35 percent of the total combined voting stock or stock value;
4. a limited liability company not recognized as exempt under [Code section 501 \(c\) \(3\)](#) in which any person described in [section VIII](#). paragraph N.1. or N.2. owns more than 35 percent of the membership interests;
5. a partnership not recognized as exempt under [Code section 501 \(c\) \(3\)](#) in which any person described in [section VIII](#). paragraph 1. or 2. owns more than 35 percent of the profits interests or capital interests; or
6. an estate or a trust not recognized as exempt under [Code section 501 \(c\) \(3\)](#) in which any person described in [section VIII](#). paragraph N.1. or N.2. holds more than 35 percent of the beneficial interest.
7. Stockholdings; Membership Interests. For purposes of paragraphs 3. and 4., there shall be taken into account indirect stockholdings and membership interests which would be taken into account under [section 267 \(c\)](#) and [318 \(a\) \(4\)](#), except that, for purposes of this paragraph, Code section 267 (c) (4) shall be treated as providing that the members of the family of an individual are the members within the meaning of [section VIII](#). paragraph N.9.
8. Partnerships, Trusts, Estates. For the purposes of paragraphs 4. and 5. the ownership of profits interest, capital interest or beneficial interest shall be determined in accordance with the rules for constructive ownership of stock provided in [Code section 267 \(c\)](#) (other than paragraph (3) thereof), except that Code section 267 (c) (4) shall be treated as providing that the members of the family of an individual are the members within the meaning of paragraph 9.

9. **Members of Family.** For purposes of this definition, the family of any individual shall include on the individual's parents, children, spouse, siblings and the spouses of the individual's siblings.

10. **Time of determination.** A person is a disqualified person, if, at any time during the transition period that a person is described in this definition.

O. Wilful.

The term "wilful" means a knowing, voluntary, intentional violation of a known legal duty.

P. Sanction Period.

The term "sanction period" means, with respect to any act of self-dealing under section VI. paragraph B or noncharitable expenditure under section VI. paragraph C, the period beginning on the date on which the act of self-dealing or noncharitable expenditure occurs and ending on the earliest of :

1. the date on which the penalty imposed by section VI. paragraph B.a.1. or C.a.1 is paid;
2. the date on which correction of the act of self-dealing or noncharitable expenditure is completed; or
3. 180 days after the final judicial decision sustaining the Service's final determination with respect to a penalty imposed by section VI. paragraph B.1. or C.1. hereof under section VI. paragraph H.1.

Q. First-Tier Penalty.

For purposes of this paragraph P., the term "first tier penalty" means any penalty imposed by section VI. paragraph B.1. or C.1.

R. Second-Tier Penalty.

For purposes of this paragraph P., the term "first tier penalty" means any penalty imposed by section VI. paragraph B.1. or C.2.

S. Correction.

The terms "correction" and "correct" mean:

1. for any act of self-dealing, undoing the transaction to the extent possible, but in any case placing the Scientology-related entity in a financial position not worse than that in which it would be if the disqualified person were dealing under the highest fiduciary standards;
2. for any noncharitable expenditure (A) recovering part of all of the expenditure to the extent recovery is possible, and where full recovery is not possible such additional corrective action as is prescribed by the Service or (B) in the case of a failure to comply with paragraph D making or correcting the report in question, and

3. for any failure to report under paragraph IV.D., the filing with the Service of an annual Report or corrected Annual Report 9 (or relevant part thereof), meeting the requirements of this Agreement.

T. Correction Period.

The term, "correction period" means, with respect to any event that is subject to penalty under the Agreement, the period beginning on the date on which such events occurs and ending 180 days after the date of the mailing under section VI. paragraph H.1.b. of a final notice of determination with respect to the second tier penalty imposed on such event, extended by any other period the Service determines is reasonable and necessary to bring about correction of the event.

U. Church.

The term "Church" when used in a descriptive sense refers to all Scientology-related entities. When used in connection with specific obligations under this Agreement, however, the term "Church" shall generally mean the CTCC.

V. Commissioner.

The term "Commissioner" means the Commissioner of the Internal Revenue Service.

W. Assistant Commissioner.

The term "Assistant Commissioner" means the Assistant Commissioner of the Internal Revenue Service for Employee Plans and Exempt organizations (or the successor to his or her function in any reorganization of the Service).

X. Knowing.

An individual shall be considered to have participated in a transaction "knowing" that it is either an act of self-dealing under section VI., paragraph B. or a noncharitable expenditure under section VI., paragraph C. only if

1. He has actual knowledge of sufficient facts so that, based solely upon such facts, such transaction would be an act of self-dealing or a noncharitable expenditure, and
2. He is aware that such an act under these circumstances may violate the relevant provisions of this Agreement, and
3. He negligently fails to make reasonable attempts to ascertain whether the transaction is an act of self-dealing or a noncharitable expenditure, or he is in fact aware that it is such an act.

The term knowing does not mean "having reason to know," but evidence that a person had reason to know of a particular fact or of a provision of this Agreement can be circumstantial proof of actual knowledge.

Y. Reasonable cause.

The term "reasonable cause" means the exercise of responsibility by a CTCC member on behalf of the CTCC and Scientology-related entities with ordinary business care and prudence.

IX. Other Matters.

A. Representations.

The Church signatories represent that all are duly organized, validly existing and in good standing under the laws of the jurisdiction in which they are organized and that all have the power and authority to execute and deliver this Agreement, to perform their duties and obligations and to exercise their rights under this Agreement, to cause Scientology-related entities to comply with the terms of this Agreement, and further represent that the execution of this Agreement by the officers or trustees has duly and properly authorized by each Church signatory and that upon execution, this Agreement constitutes a valid and legally binding obligation of each Church signatory.

B. Notices.

1. All notices and reports hereunder shall be in writing and sent by certified mail, return receipt requested.
2. Notice to the Service shall be sent as follows:

*Assistant Commissioner Employee Plans and Exempt Organizations
Internal Revenue Service
Room 3408E
1111 Constitution Avenue,
N.W. Washington, D.C. 20224*

In the event of a reorganization of functions within the Service in which the office of Assistant Commissioner (Employee Plans and Exempt Organizations) is eliminated, notices hereunder to the Service shall be sent to the Service official succeeding to the functions now served by the Assistant Commissioner (Employee Plans and Exempt Organization), as determined by the Service and sent to the CTCC in accordance with paragraph B. 4. hereof.

3. Notice to the CTCC shall be sent as follows:

*Church Tax Compliance Committee
c/o Church of Scientology International
6331 Hollywood Blvd.,
Suite 1200
Los Angeles,
California 90028-6329*

4. Either party may change the address designated for future notices hereunder by notice in the manner provided in paragraph B. 1. to the other party to the existing address of record as provided in paragraph B. 2. or B. 3..

C. Rules of Construction.

1. This Agreement has been prepared by the combined efforts of the parties and their respective attorneys.
2. The parties may by written agreement extend the time for performance of any obligation under this Agreement, except and only to the extent that another provision of this Agreement precludes such an extension of time.
3. Unless otherwise expressly provided herein, no remedy conferred on or reserved to a party to this Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing pursuant to the Code, at law or in equity. No delay or omission to exercise any right or power accruing upon any default, omission or failure of performance hereunder shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In the event any provision of this Agreement should be breached by any party, and thereafter duly waived by the other party so empowered to act, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.
4. The words "hereof," "herein," "hereunder," "hereto" and other words of similar import refer to this Agreement in its entirety.
5. The words "agree" and "agreements" contained herein are intended to include and mean "covenant" and "covenants."
6. References to section headings and other subdivisions of this Agreement are for convenience only and shall not define or limit the provisions hereof.
7. All references made in (i) the neuter, masculine or feminine gender shall be deemed to have been made in all such genders, and (ii) in the singular or plural number shall be deemed to have been made, respectively, in the plural or singular number as well.

D. Entire Agreement.

This Agreement constitutes the entire agreement between the Service and the Church and supersedes all prior agreements and understanding, both written and oral, between the Service and the Individual CTCC members, Corporate CTCC members, At-large CTCC members, Church Signatories, Scientology-related entities and Scientology-related individuals with respect to the subject matter hereof. However, nothing contained herein shall affect the Settlement Agreement, executed on even date herewith.

E. Survival of Agreement.

All covenants, agreements, representations, and warranties made herein and in all reports (including any Annual Report under section IV.), certificates, tax returns prepared and delivered pursuant hereto shall continue in full force and effect so long as any of the provisions of this Agreement remain unperformed.

F. Costs of Compliance with Agreement.

The Church Signatories, Individual CTCC members, Corporate CTCC members, and At-large CTCC members shall, solely at their own cost, perform and discharge all of the obligations and duties and exercise all rights under this Agreement, For example, no set off is available against any penalty asserted under section VI. paragraph C. 1. by reason of such costs. The Service shall at its own cost perform and discharge all of the obligations and duties and exercise all rights under this Agreement.

G. Counterparts.

This Agreement shall be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

H. Finality.

This Agreement is final and conclusive except:

1. The matter it relates to may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact;
2. It is subject to the Internal Revenue Code sections that expressly provide that effect be given to their provisions (including any stated exception for Code section 7122) notwithstanding any other law or rule of law; and
3. If it related to a tax period ending after the date of this Agreement, it is subject to any law, enacted after the Agreement date, that applied to that tax period.

I. Date of Agreement.

The date of this Agreement is October 1, 1993.

Signatures

Dated: October 1, 1993 [Signature] DAVID MISCAVIGE, Individual Member of CTCC

Dated: October 1, 1993 [Signature] NORMAN F. STARKEY, Individual Member of CTCC

Dated: October 1, 1993 [Signature] MARK RATHBUN, Individual Member of CTCC

Dated: October 1, 1993 [Signature] HEBER JENTZSCH, Individual Member of CTCC

Dated: October 1, 1993 [Signature] (POA) MARC YAGER, Chairman, WatchDog Committee, At-Large Member of CTCC

Dated: October 1, 1993 [Signature] (POA) JONATHAN EPSTEIN, International Finance Director, At-Large Member of CTCC

Dated: October 1, 1993 [Signature] (POA) NIGEL OAKES, Chief Accountant International, At-Large Member of CTCC

Dated: October 1, 1993 RELIGIOUS TECHNOLOGY CENTER By: [Signature]
Mark Rathbun Title: President

Dated: October 1, 1993 CHURCH OF SCIENTOLOGY INTERNATIONAL By:
[Signature] Heber Jentsch Title: President

Dated: October 1, 1993 CHURCH OF SPIRITUAL TECHNOLOGY By: [Signature]
Title: POA

Dated: October 1, 1993 CHURCH OF SCIENTOLOGY FLAG SERVICE ORGANIZATION, INC. By: [Signature] Title: POA

Dated: October 1, 1993 CHURCH OF SCIENTOLOGY WESTERN UNITED STATES By: [Signature] Title: POA

Dated: October 1, 1993 BUILDING MANAGEMENT SERVICES By: [Signature]
Title: POA

Dated: October 1, 1993 CHURCH OF SCIENTOLOGY RELIGIOUS TRUST By:
[Signature] Title: POA

Dated: October 1, 1993 COMMISSIONER OF INTERNAL REVENUE SERVICE
By: [Signature] John E. Burke, Assistant Commissioner, Employee Plans and Exempt Organizations

Dated: October 1, 1993 COMMISSIONER OF INTERNAL REVENUE SERVICE
By: [Signature] James J. McGovern, Associate Chief Counsel, Employee Benefits and Exempt Organizations

List of Exhibits

[not available at this time]



Scientology versus the IRS

*Last updated 3 Jan 1998 by [Chris Owen](#)
[compiled into PDF format 23 Feb 2011 by [Anonymous](#)]*