

TAX SCAMS IN THE CHURCH?

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The Internal Revenue Service recently arrested several individuals for promoting a tax scam called a “corporate sole.” They primarily marketed this scam through seminars conducted at churches. The promoters claimed that individuals and churches could organize themselves in the form of a “corporate sole” and avoid all taxes and all governmental regulation. This article alerts you to this and another scam recently introduced into the church world.

Corporate Sole

This scam calls for the taxpayer to create a church that is organized as a “corporate sole.” You appoint yourself “bishop” or “overseer” of this church. The scam artists falsely claim that a corporate sole is a co-equal sovereign to the government of the United States. As such, the United States government cannot tax another sovereign without that sovereign’s consent. Naturally, you would not consent. As a result, you are exempt from all taxes and government regulations. If your church is organized as a tax exempt corporation, you must dissolve that corporation because the filing with the secretary of state equals your consent to be taxed and regulated. Your church should also notify the IRS that its federal identification number is no longer needed for the same reason. If you want to avail yourself of this game, you should cancel your Social Security number and transfer all assets into name of your corporate sole. You should request that your employer pay your wages to your corporate sole. The promoters claim that they have used a personal corporate sole and church corporate sole for at least eight years without any adverse consequences. They claim new freedom to follow God. They also claim that they have more money to use in ministry.

As support for their claims, they point out that some of the best known churches are organized as a “corporate sole.” For example, the Roman Catholic Church in America is organized as a corporate sole. The Church of Jesus Christ of the Latter Day Saints is organized the same way. Sixteen states have statutes that specifically recognize the corporate sole as a legitimate entity. Both appear organized as a corporate sole primarily because nonprofit corporations did not exist at the time they appeared in the United States and they object to nonprofit corporations based on their theology.

Reduced to its simplest terms, corporate sole is a type of a trust. The office of the Archbishop for each Catholic Diocese holds all parish property in trust for the benefit of the Roman Catholic Church. Using the proper terminology, the Archbishop holds title to the parish property as a corporate sole. Stated another way, he is the trustee of a corporate sole trust. The Archbishop is not allowed to use parish property as he sees fit. Instead, he is bound by law and theology to use the parish property solely for the benefit of the Church. Also, whoever occupies the office of the Archbishop is the trustee for the corporate sole. In any event, the corporate sole trust must secure a federal identification

number and meet all the requirements of Section 501(c)(3) of the Internal Revenue Code, like all other churches. The corporate sole still pays payroll taxes like any other church.

The corporate sole being promoted differs dramatically from the Catholic model. Under tax law and state laws, if you are both the grantor and the beneficiary of a trust the trust is taxed to the grantor as if the trust did not exist. As a result, if an individual transfers his assets into a corporate sole, then the corporate sole is ignored and the individual still pays the taxes resulting from those assets. The same result occurs when addressing the wages. In contrast, the Archbishop is neither the grantor nor the beneficiary of the corporate sole trust.

In sum, the corporate sole as described in state law can be used legitimately by churches, but it will never achieve any of the tax avoidance goals being promoted.

Mark of the Beast

Recently several churches have been given a thick stack of documents claiming that the Social Security number is the mark of the beast. The individual who submits the documents requests that the church stop withholding any taxes from them and delete their Social Security number from all records. In the case of a new hire, the new employee simply declines to provide a Social Security number because it is the mark of the beast. Usually, the documents also claim that the worker is exempt from taxes because they are a co-equal sovereign to the government (a la corporate sole described above). The social security number represents their consent to be taxed. This consent represents the mark of the beast. As a result, they must revoke that consent to avoid all taxes. One variation of this scam involves an employee asking the church as employer not to honor an IRS wage levy because the IRS is the Antichrist. They generally provide documentation that is similar to the mark of the beast scam.

Like corporate sole, there is some truth in their authority. It is true that foreign governments and nonresident aliens are generally not subject to taxes. However, U.S. citizens do not have that privilege. All U.S. citizens are taxed on worldwide income.

When these claims wind up in court, all the judges dismiss the mark of the beast claims and hold that the scheme is just another tax scam.

I am not qualified to address the theological claims related to the mark of the beast. However, I believe that the individuals making this claim are more motivated by the alleged tax savings than by their sincerely held religious beliefs.

If you hear about a new scheme that claims to relieve you or your church completely of its tax or regulatory burden, then you can generally reject it. If you believe it could be true, email me so I can dispel or affirm that notion.