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IRS and Kabbalah

The Kabbalah Center is the place where a form of religious practice is carried out, made famous by celebrities such as Madonna, Ashton Kutcher and now Gwyneth Paltrow. It has now attracted IRS scrutiny much like the Scientologists did for many years. The debate at that time was whether the Church of Scientology is to be considered a church and thereby enjoy tax-exempt status for religious organizations. After years of litigation, the IRS finally ruled that the Church of Scientology was a church in 1993 under section 501(c)3 after the church dropped several lawsuits against the IRS.

Now a similar scenario is being played out with the Los Angeles-based Kabbalah Center. But there is a significant difference. According to the LA Times, the current debate is not whether Kabbalah is a legitimate church that enjoys tax-free status. Rather, it is a criminal investigation into tax evasion.

The issue revolves around the contributions made to the Berg family that has run the Kabbalah Center for 40 years. The LA Times suggests the IRS is querying whether funds contributed to the Bergs come under what lawyers call 'private inurement'. If so, then the Kabbalah Center does not warrant a tax-free status.

Since there is another Kabbalah Center in New York, a Manhattan grand jury is also looking for evidences while the IRS in LA is interviewing people connected to the Center. Madonna's charity, Raising Malawi, has also been in cooperation with the IRS.

One person who accuses the Kabbalah Center of tax fraud is the Center's former Chief Financial Officer Nicholas Vakkur. Vakkur implicates Karen Berg, the Center's Chief Executive, who runs the center with her two sons, Michael and Yehuda. Another former Chief Financial Officer, Nicholas Boord Jr., suggested the Center had annual revenue of \$60 million, a \$200-million real estate portfolio and a \$60-million investment fund. These details have never been made public as Kabbalah Center is a tax-qualified church which is exempt from divulging them. This is because churches and nonprofits usually do not have complex corporate structures.

In their 1993 filing for tax-exempt status, the Bergs claim they do not draw any salaries, although they live in Beverly Hills homes owned by the Kabbalah Center. Over the years, several lawsuits have been filed against the Kabbalah Center and the Berg family focused mainly on the accusation that the Center is run primarily for their own benefit.