

US SUPREME COURT RULES UNANIMOUSLY THAT WISCONSIN'S DEFINITION OF "RELIGIOUS PURPOSES" IS UNCONSTITUTIONAL IN UNEMPLOYMENT TAX EXEMPTION CASE

REMANDS CATHOLIC CHARITIES
CASE TO WISCONSIN COURTS FOR
RECONSIDERATION

By Mike Batts, CPA

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In a rare unanimous decision, the US Supreme Court ruled last week that the State of Wisconsin erred in applying its definition of "religious purposes" in an unemployment tax exemption case involving Catholic charities in the state.¹ Like many other states, Wisconsin state law contains an exemption from the state's unemployment tax for employers that meet certain criteria in terms of a relationship with a church, convention, or association of churches and that operate "primarily for religious purposes."

The state had denied an exemption to the Catholic charities, which, by the state's own admission, met the applicable criteria for a relationship with a church.

The state had concluded, however, that the Catholic charities did not operate primarily for religious purposes because their activities (which included charitable endeavors such as feeding and helping hungry, poor, and homeless people) did not involve evangelizing, proselytizing, or otherwise religious communications with the people being served.

The Catholic ministries involved in the case stated that their practice of providing such aid without religious communications is consistent with their

religious beliefs and doctrine. Legal counsel for the state of Wisconsin stated that the exemption would have been granted if the Catholic charities provided their charitable aid in a manner that included religious messaging.

The State Supreme Court in Wisconsin previously ruled in favor of the State of Wisconsin, denying the exemption for the Catholic charities. The Catholic charities appealed the case to the US Supreme Court.

The US Supreme Court concluded (unanimously – as stated previously) that allowing an exemption for religious groups that provide charitable aid together with evangelism and not allowing an exemption for those religious groups who provide such aid without evangelism (because of their beliefs about the practice) is unconstitutional religious discrimination...and is not permissible.

While many publications have described this US Supreme Court decision as requiring that the Catholic charities be granted an exemption, that is not exactly what the Supreme Court decided. Instead, the Court ruled that Wisconsin's application of its law was unconstitutional for the reasons described herein (and as described in the opinion), and the Court remanded (returned) the case to the Wisconsin courts for further consideration in a manner consistent with the US Supreme Court's conclusion.

While it is likely that the ultimate result will be that the Catholic charities will be exempt from the Wisconsin unemployment tax, the final determination of the matter will rest with its state courts. It is at least theoretically possible that the state courts could attempt to take a different approach that they believe would still be consistent with the US Supreme Court's decision.

While this decision by the US Supreme Court could have far-reaching implications for unemployment tax exemptions in many states for church-related

¹ Source: https://www.supremecourt.gov/opinions/24pdf/24-154_2b82.pdf

organizations, it is still a bit early to tell exactly what those implications may be. One thing is clear, however. A state must now much more carefully consider how it applies the law when determining whether a church-related organization is operating primarily for religious purposes.

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