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U.S. Supreme Court Reviews Wisconsin Ruling on Catholic Charities' Unemployment Tax Exemption

On March 31, 2025, the U.S. Supreme Court heard oral arguments in a case addressing whether Wisconsin's refusal to exempt Catholic Charities' sub-entities from paying state unemployment taxes under a "religious purposes" exemption violated the First Amendment's establishment clause. The decision could have a broad impact on federal or state tax exemptions hinging on religion or benevolence. It could also particularly impact religiously affiliated hospitals currently benefiting from various exemptions.

Wisconsin's unemployment compensation act provides an exemption to an "organization operated primarily for religious purposes and operated, supervised, controlled, or principally supported by a church or convention or association of churches." Wis. Stat. § 108.02(15)(h)2. Organizations exempt under this and other provisions of the statute are not required to pay taxes to support the state's unemployment fund. Last year, the Wisconsin Supreme Court denied the tax exemption to the Catholic Charities' sub-entities on the grounds that their activities were "primarily charitable and secular" and not sufficiently aimed at promoting the Catholic faith to warrant being entitled to a religious purposes exemption. The sub-entities were engaged in services such as job placement, job training, and daily living services to individuals with disabilities. The Wisconsin Supreme Court stated the religious exemption test must be applied by examining the motivations and the activities of the organization. Catholic Charities appealed to the U.S. Supreme Court.

In oral arguments, Catholic Charities argued that any court involvement in this space was a violation of the entanglement clause of the First Amendment. Specifically, Catholic Charities argued that providing social-based services to

the communities was facially associated with religious motivation. It asserted that the Wisconsin Supreme Court's adverse decision entangled church and state by requiring courts to engage in fact-finding about the sincerity of an organization's religious motivations.

The State of Wisconsin stressed the need for equality and non-discrimination, highlighting the potential for hollow application if exemptions were granted to any religious organizations claiming that any form of conduct or activity is religiously affiliated. The State of Wisconsin also expressed concern that siding with Catholic Charities could open the door for religiously affiliated hospitals to withdraw from Wisconsin's unemployment system.

The majority of the court's questions posed to both parties were concerned with balancing religious freedom and a workable format for courts to apply. Various questions were posed by the court about hypothetical applications to various religions regarding how or whether to draw lines between religious groups that proselytize and those that do not.

Contact us

Our team will continue to monitor and provide updates when available. For more information, please contact Smitha Chintamaneni, Robert Romashko, Anthony Anzelmo, or your Husch Blackwell attorney.