

# U.S. Supreme Court Upholds Catholic Charity's Religious Exemption From Wisconsin Unemployment Tax

## Labor & Employment Law Update

By Craig Kubiak on June 5, 2025

In a 9-0 decision authored by Justice Sonia Sotomayor, the U.S. Supreme Court overturned a ruling by the Wisconsin Supreme Court, which held that Catholic Charities Bureau Inc. (the "Charities") and its subsidiaries were not exempt from making payments to the state's unemployment insurance program.

The Wisconsin Court held that the group's work was not religious. The U.S. Supreme Court held that denying the exemption violates the First Amendment.

The appellant, Catholic Charities Bureau, Inc., is a nonprofit organization that serves as the social ministry arm of the Roman Catholic Diocese of Superior, Wisconsin. Its stated mission is to "carry on the redeeming work of our Lord."

In aid of that mission, it "provid[es] services to the poor and disadvantaged" and seeks to "be an effective sign of the charity of Christ." The Charities do not distinguish on the basis of "race, sex, or religion in reference to clients served, staff employed and board members appointed."

The Charities sought a religious exemption to the Wisconsin unemployment tax; however, the state denied the exemption on the grounds that the work being performed was not "religious." The Charities appealed to the Wisconsin Supreme Court, which upheld the denial. The U.S. Supreme Court took the case on the Charities' motion for certiorari.

The U.S. Supreme Court focused on whether the statute, as applied to the Charities, violated the First Amendment. The Court framed the issue as follows:

The question here is whether [the Wisconsin unemployment statute], as applied to petitioners by the Wisconsin Supreme Court, violates the First Amendment. The Court holds that it does. The First Amendment mandates government neutrality between religions and subjects any state-sponsored denominational preference to strict scrutiny. The Wisconsin Supreme Court's application of [the statute] imposed a denominational preference by differentiating between religions based on theological lines. Because the law's application does not survive strict scrutiny, it cannot stand.

In its holding, the Court noted that other religious denominations that perform the same services, but directly through the religious entity, receive the exemption. The Court questioned whether that constitutes the state favoring one religion over another. The Court noted that there is a long history of precedent holding “[t]he clearest command of the Establishment Clause” is that the government may not “officially prefer” one religious denomination over another.

Because the statute relied upon by the state “grants denominational preferences of the sort consistently and firmly deprecated in our precedents,” the Court held that “when the government distinguishes among religions based on theological differences in their provision of services,” it imposes a denominational preference that must satisfy the highest level of judicial scrutiny. “Because Wisconsin has transgressed that principle without the tailoring necessary to survive such scrutiny, the judgment of the Wisconsin Supreme Court is reversed ...”

It is clear from this and earlier decisions that the U.S. Supreme Court will protect religious freedom and view any attempts to stifle such freedom with extreme skepticism. Employers should note that the court’s rationale will clearly extend beyond the facts of this case and likely envelope all areas of law.

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