



FP Non-Profit Snapshot: 4 Things Non-Profits Need to Know About SCOTUS's Religious Tax Exemption Ruling

Insights

7.09.25

Welcome to this edition of the FP Non-Profit Snapshot, where we take a quick look at a recent significant legal development with an emphasis on how it impacts non-profit organizations. This edition focuses on a landmark Supreme Court decision that significantly expands tax exemption opportunities for religiously affiliated non-profits. The fact that all nine justices agreed on this decision demonstrates strong support for protecting religious organizations from discriminatory treatment.

Snapshot Look at the SCOTUS Decision

In *Catholic Charities Bureau, Inc. v. Wisconsin Labor and Industry Review Commission*, the U.S. Supreme Court unanimously held that Wisconsin's interpretation of its unemployment tax exemption for religious organizations violated the First Amendment.

- Wisconsin denied Catholic Charities Bureau the exemption because it neither proselytized to those it served nor limited its charitable services to Catholics.
- The Court ruled on June 5 that this framework illegally favored certain religious practices over others based on how they deliver charitable services. Many faiths, including Catholicism, prohibit attempts to convert individuals during charitable work, while others view proselytizing as central to their religious mission.
- By forcing religious organizations to either attempt conversions during their charitable work or restrict their aid to fellow believers to maintain their tax-exempt status, Wisconsin created an unconstitutional denominational preference.

The decision establishes that governments cannot create religious exemptions that favor some faith traditions over others based on their theological practices. This ensures that all religious organizations receive equal treatment regardless of how their beliefs guide their charitable work.

For the complete analysis of how this impacts religious schools specifically, you can read our full Education Practice Group Insight [here](#).

What Do Non-Profits Need to Know?

There are four key takeaways for non-profit organizations based on this important Supreme Court ruling.

1. Requirements to Proselytize or Limit Services Are Now Unconstitutional

This decision eliminates a major barrier that improperly excluded many religious non-profits from exemptions they otherwise qualified for. The Court invalidated Wisconsin's requirement that religious organizations must either attempt to convert those they serve or limit services to members of their own faith to qualify for unemployment tax exemptions. This ruling protects a broad range of religiously affiliated entities, including hospitals, housing programs, charities, and schools that serve the general public without regard to religion. If your organization was previously denied a tax exemption under similar criteria, you may wish to reevaluate your eligibility and consider reapplying.

2. Government Cannot Favor Some Religions Over Others

The ruling reinforces that government entities cannot adopt standards that favor one religion's beliefs or structure over another's. Laws and regulations must be neutral and cannot penalize organizations for adhering to religious teachings that do not include proselytizing or doctrinal exclusivity. If your organization has been denied benefits while others with different religious practices were approved, this case provides a strong legal foundation to challenge unequal treatment.

3. You Still Need to Document Religious Purpose and Oversight by a Church Body

Even after this ruling, your organization must still demonstrate that it primarily operates for religious purposes and is controlled by a church or religious institution for exemption eligibility. This includes ensuring that your articles of incorporation, bylaws, mission statement, and board structure clearly reflect your religious mission and connection to a religious body. However, the key insight from the Court is that states cannot define "religious purpose" in ways that favor certain religious beliefs or practices over others. The constitutional requirement of neutrality applies not only to exemption eligibility but also to how governments interpret religious function and identity.

4. Separate Corporate Status Does Not Disqualify You From Religious Exemptions

Many religious organizations structure themselves as separate nonprofit corporations to carry out various functions, including education, social services, or healthcare. Wisconsin had argued that Catholic Charities Bureau, as a separately incorporated nonprofit, was not sufficiently connected to the Diocese to qualify for a religious exemption. The Supreme Court rejected that view. The Court made clear that separate incorporation does not automatically sever the religious identity of an entity. What matters is whether the organization remains under the control of and functions as a ministry of a religious institution. If your organization has been denied exemptions because officials

viewed your independent corporate structure as disqualifying, this decision offers a strong basis for review or appeal.

Want More?

This decision creates fairer and more consistent standards for religious exemptions across different denominations and approaches to charitable work. The fact that all nine justices agreed provides a powerful tool for organizations facing unfair exemption policies.

We will continue monitoring developments in non-profit law, so make sure you are subscribed to [Fisher Phillips' Insight System](#) to receive the most current updates directly in your inbox. If you have questions about how this ruling may impact your organization's tax exemption eligibility, contact your Fisher Phillips attorney or any member of our [Non-Profit Organizations Team](#).

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