

## ***Kelley v. Commissioner, 62 T. C. 131 (1974)***

Income earned by a priest living outside his religious order and not acting as an agent of the order is taxable.

### **Summary**

In *Kelley v. Commissioner*, the U. S. Tax Court ruled that income earned by Francis E. Kelley, a Roman Catholic priest living outside the Dominican Order, was taxable. Kelley had been granted permission to live as a layman to decide his future in the order. He earned income from teaching and selling securities, which he used for personal expenses without reporting to the order. The court found that Kelley was not acting as an agent of the order, thus his earnings were not excludable from his gross income under the broad definition of income in the Internal Revenue Code.

### **Facts**

Francis E. Kelley, a Roman Catholic priest and member of the Dominican Order, was granted permission in 1967 to live outside the order as a layman to decide his future. During this period, he taught at Merrimack College, Northern Essex Community College, and sold securities for Securities Investment Services. He received direct payments for these activities, used the money for personal expenses, and did not report these earnings to the Dominican Order. Kelley married in August 1969, which automatically terminated his connection with the order. He claimed that the income earned before his marriage should be excluded from his gross income due to his vows of poverty and obedience.

### **Procedural History**

The Commissioner of Internal Revenue determined a deficiency in Kelley's 1969 income tax return, disallowing the exclusion of \$5,445 from his gross income. Kelley and his wife, Judith M. Kelley, petitioned the U. S. Tax Court to challenge this determination.

### **Issue(s)**

1. Whether income earned by Kelley prior to his marriage in August 1969, while living outside the Dominican Order, is excludable from his gross income under Section 61 of the Internal Revenue Code?

### **Holding**

1. No, because Kelley was not acting as an agent of the Dominican Order during this period, and thus his earnings are not excludable from his gross income.

### **Court's Reasoning**

The court applied the broad definition of gross income under Section 61 of the Internal Revenue Code, which includes “all income from whatever source derived. ” The court found that Kelley’s income from teaching and selling securities fell within this definition. Kelley argued he was acting as an agent of the order, but the court rejected this, noting that he lived and worked as a layman, had no limitations on the use of his earnings, did not report his income to the order, and retained his possessions upon leaving. The court emphasized that Kelley’s vows of poverty and obedience were effectively revocable, and he received no specific instructions from the order during this period. The court distinguished Kelley’s situation from cases where priests acted as agents of their orders, concluding that his income was taxable.

### **Practical Implications**

This decision clarifies that income earned by religious individuals living outside their orders, without acting as agents of those orders, is taxable. It impacts how religious orders and their members structure arrangements for living outside the community, especially concerning financial independence and the handling of income. Tax practitioners advising religious individuals must consider the extent of their client’s connection to their religious order when determining the taxability of their income. The ruling also influences how similar cases are analyzed, focusing on the degree of control and agency the religious order maintains over the individual’s activities and finances. Subsequent cases involving religious individuals’ income have referenced Kelley to distinguish between taxable and non-taxable earnings based on the individual’s relationship with their order.