Schuster v. Commissioner, 84 T. C. 764, 1985 U. S. Tax Ct. LEXIS 87, 84 T. C. No. 51 (1985)

Income earned by members of religious orders is taxable to the individual if earned in their personal capacity, not as an agent of the order.

Summary

Francine Schuster, a nurse-practitioner and member of a Catholic religious order, worked for the National Health Services Corps (NHSC) at a clinic in Texas. She endorsed her paychecks to her order per her vow of poverty. The issue was whether her wages were taxable to her personally or to her order as an agent. The Tax Court held that her wages were taxable to her because she was employed by the NHSC in her individual capacity, not as an agent of her order. The decision was based on the lack of a contractual relationship between the NHSC and her order, and the fact that she was treated as an individual employee by the NHSC.

Facts

Francine Schuster, a member of the Order of the Adorers of the Blood of Christ, was a nurse-practitioner who accepted a position with the National Health Services Corps (NHSC) to work at Su Clinica Familiar in Texas. She received her salary directly from the NHSC, but endorsed all checks to her order in accordance with her vow of poverty. The order had approved her mission and requested that her wages be paid directly to it, but the NHSC issued checks in her name only. Schuster's work at the clinic fulfilled her commitment to serve in a health manpower shortage area, a condition of her nursing education funding.

Procedural History

Schuster filed a timely tax return for 1980, claiming her wages were not taxable because they were earned as an agent of her religious order. The Commissioner of Internal Revenue issued a notice of deficiency, asserting that Schuster's wages were taxable to her personally. Schuster petitioned the U. S. Tax Court, which held a trial and subsequently ruled in favor of the Commissioner.

Issue(s)

1. Whether compensation earned by Schuster while a member of a religious order is includable in her gross income.

Holding

1. Yes, because Schuster earned the income in her individual capacity as an employee of the NHSC, not as an agent of her religious order.

Court's Reasoning

© 2025 SCOTUSreports.com. All rights reserved.

The court applied the fundamental principle that income must be taxed to the person who earns it, citing *Lucas v. Earl*. The court found that Schuster was employed by the NHSC under standard federal personnel policies, received federal benefits, and was paid directly by the U. S. Treasury. Despite her vow of poverty and the order's request for direct payment, there was no contractual relationship between the NHSC and the order. The court rejected the argument that Schuster was an agent of her order, emphasizing that an agency relationship requires the principal to have a legal obligation to the third party, which was not present here. The court distinguished this case from others where members of religious orders worked directly for their orders or affiliated entities. A dissent argued that Schuster's income should not be taxable to her because she acted strictly as an agent of her order, subject to its control and direction.

Practical Implications

This decision clarifies that members of religious orders who work for secular employers are generally taxable on their earnings, even if they transfer those earnings to their orders. Practitioners advising members of religious orders should ensure that any employment arrangement explicitly establishes an agency relationship between the order and the employer if the goal is to avoid individual taxation. This case may impact how religious orders structure missions for their members, potentially encouraging direct employment by the order or its affiliates. Later cases, such as *Fogarty v. United States*, have followed this ruling, reinforcing the principle that individual taxation applies unless a clear agency relationship exists.

© 2025 SCOTUSreports.com. All rights reserved.