

Tax Credit for Contributions to Scholarship Granting Organizations

Cross References

- IRC §25F
- Notice 2025-70

The IRS has announced that it intends to issue proposed regulations to implement new rules under IRC section 25F, as added by the One Big Beautiful Bill Act (OBBBA) signed into law on July 4, 2025. IRC section 25F allows for a tax credit for an individual's qualified contribution to a scholarship granting organization (SGO).

Notice 2025-70 also provides the following summary of the new law.

Overview of §25F credit. IRC section 25F provides a nonrefundable income tax credit (§25F credit) allowable to a taxpayer for qualified contributions to SGOs made by an individual who is a citizen or resident of the United States. IRC section 25F(c)(3) defines a "qualified contribution" as a charitable contribution of cash to an SGO that uses the contribution to fund scholarships for eligible students solely within the state in which the organization is listed. In order for a contribution to be a qualified contribution eligible for a §25F credit, the state must have voluntarily elected to participate and must have identified the SGO as one that satisfies the requirements of IRC section 25F(c)(5) for the applicable calendar year.

Amount of §25F credit. IRC section 25F(a) provides that, in the case of an individual who is a citizen or resident of the United States, there is allowed as a credit for the tax year an amount equal to the aggregate amount of qualified contributions made by the taxpayer during the tax year. The amount of the §25F credit allowable for a tax year is subject to two limitations. First, the §25F credit for any tax year may not exceed \$1,700. Second, the amount allowed as a §25F credit for a tax year is reduced by the amount allowed as a credit on any state tax return of the taxpayer for qualified contributions made by the taxpayer during the tax year. In addition, IRC section 25F(e) prohibits a double benefit to a taxpayer by providing that any qualified contribution for which a §25F credit is allowed cannot be taken into account as a charitable contribution for purposes of IRC section 170.

IRC section 25F(f) provides for the carryforward of unused §25F credit amounts. If the §25F credit allowable for any tax year exceeds the limitation imposed by IRC section 26(a) for such tax year reduced by the sum of the credits allowable under IRC sections 21, 22, 24, 25, 25A, 25B, 25C, 25E, and 26, such excess is carried to the succeeding tax year and added to the credit allowable under IRC section 25F(a) for such tax year. In addition, IRC section 25F(f)(2) provides that no credit may be carried forward to any tax year following the fifth tax year after the tax year in which the credit arose. §25F credits are treated as used on a first-in, first-out basis.

SGO requirements.

- 1) An organization can qualify as an SGO only if it satisfies each requirement set forth in IRC section 25F(c)(5). The SGO must:
 - a) Be described in IRC section 501(c)(3), be exempt from tax under IRC section 501(a), and not be a private foundation,
 - b) Prevent the co-mingling of qualified contributions with other amounts by maintaining one or more separate accounts exclusively for qualified contributions,
 - c) Satisfy each of the requirements of IRC section 25F(d), and
 - d) Be included on the list submitted for the applicable covered state under IRC section 25F(g) for the applicable year. IRC section 25F(c)(1) defines a “covered State” as “one of the states, or the District of Columbia,” that, for a calendar year, voluntarily elects to participate under IRC section 25F and to identify the SGOs located in the state.
- 2) The requirements in IRC section 25F(d) that an SGO must satisfy are as follows:
 - a) The organization must provide scholarships to 10 or more students who do not all attend the same school.
 - b) The organization cannot spend less than 90 percent of its income on scholarships for eligible students.
 - c) The organization cannot provide scholarships for any expenses other than qualified elementary or secondary education expenses. IRC section 25F(c)(4) defines a qualified elementary or secondary education expense as any expense described in IRC section 530(b)(3)(A) (relating to Coverdell education savings accounts) of an eligible student. IRC section 530(b)(3)(A) identifies these expenses to include certain expenses incurred at, required by, or provided by a public, private, or religious school.
 - d) The organization must provide scholarships to eligible students with a priority for:
 - i) Students awarded a scholarship the previous school year, and thereafter, and
 - ii) Any eligible students who have a sibling who was awarded a scholarship from such organization.
 - e) The organization cannot earmark or set aside contributions for scholarships on behalf of any particular student.
 - f) The organization must:
 - i) Verify the annual household income and family size of eligible students who apply for scholarships to ensure such students meet the area median gross income requirement of IRC section 25F(c)(2)(A), and
 - ii) Limit the awarding of scholarships to eligible students who are members of a household for which the income does not exceed the amount established under IRC section 25F(c)(2)(A).
 - g) The organization cannot award a scholarship to any disqualified person, which IRC section 25F(d)(2)(B) provides is determined pursuant to rules similar to the rules of IRC section 4946 (relating to private foundations).

State lists and certifications. IRC section 25F(g) provides that:

- 1) Not later than January 1 of each calendar year (or, with respect to the 2027 calendar year, as early as practicable), a state that voluntarily elects to participate under IRC section 25F must provide to the IRS a list of the SGOs that meet the requirements described in IRC section 25F(c)(5) and are located in the state (state list).
- 2) The election under IRC section 25F(g) must be made by the Governor of the State or by such other individual, agency, or entity as is designated under state law to make such elections on behalf of the state with respect to federal tax benefits.
- 3) Each state list must include a certification that the individual, agency, or entity submitting such list on behalf of the state has the authority to perform this function.

Regulations and guidance. IRC section 25F(h) directs the IRS to issue such regulations or other guidance as the IRS determines necessary to carry out the purposes of IRC section 25F, including regulations or other guidance.

- 1) Providing for enforcement of the requirements under IRC section 25F(d) and (g), and
- 2) With respect to recordkeeping or information reporting for purposes of administering the requirements of IRC section 25F.