

THE NEW 2027 FEDERAL SCHOLARSHIP TAX CREDIT (AKA THE EDUCATION FREEDOM TAX CREDIT)

Frequently Asked
Questions for
Tax Professionals

Federal Scholarship Credit (FSTC) *aka* Education Freedom Tax Credit (EFTC)

FREQUENTLY ASKED QUESTIONS FOR TAX PROFESSIONALS

EFFECTIVE DATE

Donations made on or after January 1, 2027.

STATUTE

26 U.S.C. §25F (enacted as Section 70411 of the OBBBA, signed July 4, 2025).

STATUS OF GUIDANCE

Treasury released a **public guidance preview on June 9, 2026** describing the direction of forthcoming proposed regulations. Proposed regs and final regs have not yet been issued. Where the answers below rest on that preview, we say so and use the language Treasury used. Where the statute is silent and the preview did not address an issue, we flag the best-read interpretation so your clients can still plan.

THE SHORT VERSION (READ THIS FIRST)

- 100% non-refundable federal income tax credit, capped at **\$1,700 per tax return per year**.
- **Cash only**. No stock, no crypto, no in-kind property. (This changed late in the legislative process. A lot of older articles still say otherwise.)
- **5-year carryforward** for unused credit.
- **No double-dipping** with the §170 charitable deduction on the same dollars.
- Donor does **not** need to live in a participating state. The credit is available to any U.S. citizen or resident donating to an SGO listed by a covered state.
- **Donors will not need to give SGOs their Social Security Number**. Treasury has previewed a unique-donor-number reporting system to support IRS matching.
- Scholarships go to K-12 students in opted-in states whose households earn up to 300% of area median income.
- First eligible donation date: **January 1, 2027**. First credit appears on the 2027 return.
- **Tax professionals partnering with ACE Scholarships can earn referral fees starting at 3% of client donations (or more) to the philanthropy of their choice, or to the bottom line of their practice**. Find out more by emailing: taxpro@acescholarships.org.

TWO MORE THINGS TAX PROS SHOULD KNOW

This is the first time in U.S. history that a federal tax credit has been built around K-12 scholarships. The closest analog at the federal level is the dependent care credit. The state-level analog is the scholarship tax credit programs that have operated in roughly 20 states for over a decade. Expect Treasury guidance and IRS forms to borrow heavily from both.

Plan now, advise in 2027. No donor can claim this credit until 2027. But year-end 2026 conversations with your clients are the right time to introduce the credit, set expectations for cash-only, and decide whether the §25F credit or a continued §170 plan is the better fit. The decision is mostly arithmetic and most clients will land on the credit.

THE CREDIT ITSELF

Where is this credit in the Code?

IRC §25F, added by OBBBA Section 70411(a)(1). Statute text:
law.cornell.edu/uscode/text/26/25F.

What is the maximum credit amount?

\$1,700 per tax return per year. The credit is 100% of qualified cash contributions to a qualifying SGO, up to that cap.

Is the \$1,700 cap per spouse on a joint return, or per return?

Best read of the statute: **per return**. §25F(b)(1) caps the credit at \$1,700 "to any taxpayer for any taxable year," and the prevailing view in the SGO and practitioner community is that married joint filers share a single \$1,700 cap. Married filing separately, each spouse can claim up to \$1,700 on their own return.

Caveat: A minority reading argues for \$3,400 per joint return. The June 9, 2026 Treasury preview did not address the joint-filer question. Until Treasury rules, plan conservatively at \$1,700 on a joint return and document the position if a client wants to claim more.

Is the credit refundable?

No. §25F is non-refundable. It can zero out federal tax liability, but it will not generate a refund larger than what was already withheld or paid.

Can unused credit be carried forward?

Yes. Up to five tax years. So a retiree with \$1,200 in federal liability who donates \$1,700 in 2027 uses \$1,200 in 2027 and carries the remaining \$500 into 2028. As long as there is federal liability somewhere in the next five years, the credit is not lost.

Does AMT block the credit?

Best read: no, in most cases. §25F is a nonrefundable personal credit subject to the §26(a) limitation, which under current law lets nonrefundable personal credits offset both regular tax and AMT. Most individual donors with §25F donations will not see the credit barred by AMT.

Caveat: High-income clients with significant AMT exposure should still run the numbers. The June 9, 2026 Treasury preview did not coordinate §25F with AMT specifically.

Where will the credit be claimed on the return?

The IRS has not yet released the specific form or schedule. Expect either a new line on Schedule 3 or a dedicated form before the 2027 filing season. Whatever the form, Treasury has previewed that the donor will report a **unique donor number** issued by the SGO (see "Substantiation" below). We will update this FAQ when the form drops.

WHAT COUNTS AS A QUALIFIED CONTRIBUTION

Does the donation have to be cash?

Yes. §25F(c)(3) defines a qualified contribution as a charitable contribution of cash to a qualifying SGO. That includes check, ACH, wire, credit card, and payroll deduction.

What it does **not** include: appreciated stock, mutual funds, ETFs, real estate, cryptocurrency, services, or any other property. An earlier draft of the bill (H.R. 833) allowed appreciated securities. That provision was stripped during reconciliation. If your client read an article from 2024 that suggested donating stock, that article is now wrong.

Can a client still donate appreciated stock to an SGO?

Yes, but the stock contribution will be a regular §170 charitable deduction, not a §25F credit. Many clients will be better off donating \$1,700 in cash to capture the credit and donating appreciated securities separately for the §170 treatment and capital gains avoidance.

Can a donor take both the §25F credit and a §170 deduction on the same contribution?

No. §25F(e) is explicit: the credit and the charitable deduction cannot be claimed on the same dollars. The donor picks one treatment per contribution.

For almost every client, the credit beats the deduction. A \$1,700 deduction in the 24% bracket saves \$408 in tax. A \$1,700 credit saves \$1,700. Take the credit.

What about contributions earmarked for a specific student?

Not allowed. §25F(d)(1)(E) bars SGOs from earmarking or setting aside contributions for any particular student. A donor cannot direct funds to a specific student or family.

What about the donor's own children?

Self-dealing is prohibited. §25F(d)(2) bars SGOs from awarding a scholarship to a "disqualified person" under rules similar to §4946. A parent cannot donate, claim the credit, and have the funds flow back to their own child as a scholarship. Don't do it.

SUBSTANTIATION AND DOCUMENTATION

What documentation does the donor need?

Per the June 9, 2026 Treasury guidance preview, the substantiation regime will work like this:

1. The donor makes a cash contribution to a qualifying SGO.
2. The SGO issues the donor a written acknowledgment that includes the total qualified contributions for the year **and a unique donor number** generated under an IRS-provided method.
3. The SGO separately reports donor and contribution information to the IRS using that same unique donor number.
4. The donor reports the unique donor number on their federal return when claiming the credit.

The IRS will use the unique donor number in a matching process (similar in spirit to 1099 matching) to confirm a claimed credit corresponds to a real donor, a real SGO, and a real contribution.

Does my client have to give the SGO their Social Security Number?

No. That is the whole point of the unique donor number. Treasury has previewed this system specifically so donors do not have to share their SSN with SGOs.

What records should the tax pro keep?

Treat substantiation like any §170 cash contribution, plus the unique donor number. At minimum:

- Donor name
- Date of contribution
- Amount
- SGO name and identification
- Unique donor number
- A statement that no goods or services were provided in exchange

Best practice: get the acknowledgment letter into the client file before the return is filed. Keep the records for the standard three-year audit window, longer if the carryforward is still live.

STACKING WITH STATE CREDITS

Can a donor claim both the federal §25F credit and a state scholarship tax credit?

Yes, on separate dollars. A donor in Pennsylvania, Arizona, Georgia, or any other state with its own scholarship credit program can donate \$1,700 to a federally-qualified SGO (claim the §25F credit on the federal return) and donate a separate amount to a state-program-qualified organization (claim the state credit on the state return).

Important wrinkle in §25F(b)(2): the federal credit is **reduced** by the amount of state credit allowed to the taxpayer for the same qualified contribution. So a donor who tries to claim both the federal credit and a state credit on the same dollars will see the federal credit shrink dollar-for-dollar by the state credit. The fix is to make two separate contributions and not let them overlap.

Does §25F replace state-level scholarship tax credit programs?

No. State programs were enacted under state law for state-level reasons. They continue to operate independently. In some states, the same SGO will administer both programs in parallel.

Will the federal credit reduce state tax benefits?

State-by-state. Some states allow a state charitable deduction for the contribution; some do not. Some recently adjusted their conformity rules in light of the federal credit. Check your state's most recent guidance before filing.

STATE OPT-IN

Is the credit available to donors in all 50 states?

Yes. §25F(a) allows the credit to "an individual who is a citizen or resident of the United States." There is no donor-state residency test in the statute.

What matters is the **SGO's** state, not the donor's. §25F(c)(3) requires the SGO to use the contribution to fund scholarships for eligible students "solely within the State in which the organization is listed pursuant to subsection (g)." §25F(g) requires the SGO's state to have voluntarily elected to participate. So a donor in New York can write a check to an SGO listed in Florida and claim the credit. The scholarship will fund a Florida student. The New York donor still gets the credit.

*Note on the IRS FSTC landing page: **The current page reads ambiguously and could be misread to suggest the donor must live in a participating state. It does not.*** Read alongside

§25F(a), §25F(c)(3), and §25F(g), the controlling rule is that the SGO's state must be a covered state. The donor's state of residence is not a factor.

How does a state opt in?

§25F(g) requires the state to provide the Secretary a list of qualifying SGOs by January 1 each year. The election is made by the Governor or by another individual, agency, or entity designated under state law to make federal-tax-benefit elections on behalf of the state. Each list must include a certification that the submitter has the authority.

Which states have opted in for 2027?

Per the IRS as of March 17, 2026, the following 27 states made an advance election to participate for 2027: Alabama, Alaska, Arkansas, Colorado, Florida, Georgia, Idaho, Indiana, Iowa, Louisiana, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, North Dakota, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, West Virginia, and Wyoming. The list will change. Current source: [IRS FSTC page](#).

What if my client wants their dollars to stay local?

If the state has not opted in, scholarships flow elsewhere. The strongest local move is to encourage state participation. Tax professionals who serve nonprofit and political clients are often well positioned to drive that conversation.

WHO GETS SCHOLARSHIPS AND WHAT THEY COVER

Who is eligible to receive a scholarship?

K-12 students who reside in opted-in states and who are eligible to enroll in public school. Financial eligibility under §25F(c)(2)(A) is based on household income up to **300% of area median income** (using the §42 area median gross income standard), measured in the calendar year prior to the scholarship application.

How will SGOs verify a family's income?

Treasury previewed several safe harbors on June 9, 2026:

- **Direct documentation:** paystubs, tax returns, IRS transcripts, Forms W-2
- **Commercial verification:** credit agencies or commercial data sources
- **Categorical eligibility:** participation in a needs-based federal, state, or tribal program with income limits at or below the §25F threshold
- **Foster children:** automatically treated as meeting the income test, no separate verification
- **Low-income areas:** additional safe harbors are under consideration for students attending schools in low-income areas

SGOs will have multiple paths to verify, and families won't have to drown in paperwork.

What educational expenses qualify?

§25F(c)(4) ties qualifying expenses to §530(b)(3)(A) (the Coverdell ESA expense list). That includes:

- Tuition, uniforms, transportation, and other fees
- Books and supplies
- Academic tutoring
- Extended day programs
- Computer technology, equipment, or internet access
- Educational therapies (occupational, speech, behavioral, physical)

What about special needs services?

Treasury confirmed on June 9 that scholarships may be used for "additive special needs services." A separate §530 workstream will follow the §25F proposed regs and will further address the scope of qualifying expenses.

What types of schools qualify?

Treasury has previewed that the proposed regs will define "school" consistent with §530: public, private, and religious schools providing K-12 elementary or secondary education **as determined under state law**. Two clarifications worth noting:

- **Homeschools:** treated as a school if state law treats them as a school. State by state.
- **Tribal schools:** K-12 schools operated by a federally recognized Tribe or tribal organization qualify.

How is this different from a voucher?

Vouchers move state-appropriated public funds. The §25F credit moves private dollars. The donor gives cash, gets a credit against federal tax, and the SGO awards scholarships. No public school appropriation is touched.

SCHOLARSHIP GRANTING ORGANIZATIONS (SGOS)

What does an SGO have to do to qualify?

Per §25F(c)(5) and §25F(d), an SGO must:

1. Be a 501(c)(3) public charity, not a private foundation
2. Be included on the list submitted to Treasury by a covered state under §25F(g)
3. Prevent co-mingling of qualified contributions with other funds (separate account)
4. Provide scholarships to 10 or more students who do not all attend the same school
5. Spend at least 90% of the organization's income on scholarships
6. Use scholarships only for qualified §530(b)(3)(A) expenses
7. Prioritize prior-year scholarship recipients first, then their siblings
8. Not earmark contributions for any particular student
9. Verify household income and family size of applicants
10. Not award scholarships to a "disqualified person" (§25F(d)(2), rules similar to §4946)

What does "located in" a state mean for the SGO?

Treasury previewed that an SGO will be treated as "located in" a state if it is authorized to do business in that state and complies with the state's generally applicable charitable-organization rules (transparency, accountability, fraud prevention). States may not layer on substantive SGO-specific rules that are more restrictive than §25F itself.

Can an SGO operate in multiple states?

Yes. Treasury previewed a clear path: a multistate SGO can participate in §25F if it meets the §25F requirements in each state where it seeks to award scholarships and is listed by each participating state. It must maintain a separate §25F account for each state. Most operational requirements apply state-by-state; certain organization-wide rules apply to the SGO as a whole.

How will the 90% spending requirement be measured?

Default rule (per the Treasury preview): the 90% is measured against the organization's total receipts, unreduced by expenses.

Safe harbor (per the preview) for organizations whose activities are largely scholarship-granting: measure the 90% against the income (qualified contributions plus earnings) held in a §25F segregated account. Multistate SGOs must satisfy this safe harbor separately for each state-specific segregated account.

What audit and oversight requirements will SGOs face?

Per the Treasury preview, each SGO will need an **annual independent third-party financial and programmatic audit**, provided to each covered state on whose list it appears. Smaller SGOs will have a streamlined alternative: an internal committee unrelated to management can conduct the audit, with the report signed under penalties of perjury.

States are also expected to take reasonable steps to prevent duplicate awards (for example, requiring a scholarship acceptance certifying no other award has been received for the same expense).

Is there a planned IRS portal for SGOs?

Yes. Treasury previewed an IRS portal to support SGO administration and reporting over time, with phased rollout.

How is the program funded?

It is not funded by an appropriation. Donors voluntarily contribute cash and claim a federal credit. The Treasury bears the cost of the credit. No new public-school dollars are diverted.

ACE SCHOLARSHIPS

Can ACE Scholarships receive donations and award scholarships nationwide?

Yes. ACE Scholarships has more than 25 years of experience administering privately funded scholarships, managing state tax-credit programs, and advancing school choice policy. ACE has delivered more than 121,000 scholarships totaling over \$330 million across 13 states. As a 501(c)(3) public charity and seasoned Scholarship Granting Organization, ACE is built to operate as a multistate SGO under the Treasury-previewed framework, with separate §25F accounts per participating state and the operational infrastructure to satisfy the third-party audit and reporting requirements.

ACE can award scholarships per the FSTC to students residing in those states who have opted in by December 31, 2026. Current source: [IRS FSTC page](#).

For any questions, including about **how to earn 3% (or more) of every donation as a referral bonus to your practice or the philanthropy of your choice**, email our tax professional team directly at taxpro@acescholarships.org.

To direct a client to ACE, send them to acescholarships.org.

SOURCES AND FURTHER READING

- [26 U.S.C. §25F \(full statute text, Cornell LII\)](#)
- [IRS: Federal Scholarship Tax Credit \(FSTC\)](#)
- U.S. Treasury / Department of Education Guidance Preview Remarks (June 9, 2026)
- [Education Freedom Tax Credit Page at ACE Scholarships](#)

This FAQ reflects the statute as enacted and the June 9, 2026 Treasury guidance preview. Proposed regulations and final regulations have not yet been issued. ACE Scholarships will update this document when Treasury releases proposed regulations and when IRS releases forms.

Last updated: June 10, 2026 (incorporating Treasury guidance preview)