

What you need to know about the new **Federal Scholarship Tax Credit Program**



The New Federal Scholarship Tax Credit – A Brief Introduction

With the recent passing of President Trump’s “The One Big Beautiful Bill”, there are items within its nine hundred pages that give us excitement and those that cause concern. After nearly two decades of advocacy for increased federal support for K-12 students, especially those attending nonpublic schools, the inclusion of the nation’s first-ever Federal scholarship tax credit program undoubtedly is certainly “a cause for excitement”. It presents a new and exciting opportunity for taxpayers in all 50 states to unlock millions of dollars in support for K-12 education.

Starting in 2027, all U.S. taxpayers will be able to claim a dollar-for-dollar federal tax credit for donations of up to \$1,700 made to a Scholarship Granting Organization (SGO). The SGOs, in turn, award scholarships to applicant students attending either public or private schools. The scholarships can be used for a broad range of educational expenses, as detailed below.

In order to unlock the benefits of this program for students in each state, governors (or another relevant state entity) **will need to opt in**. As there is no financial burden on any state for this program to help its households, all that is necessary is that they submit a list of SGOs operating in their state to the U.S. Department of Treasury at the beginning of each year (starting in 2027). It is a win-win for all!

How does this program work?

For the Taxpayer:

- Taxpayers donating up to \$1,700 to an SGO receive a dollar-for-dollar credit (not a deduction) against their individual income tax
- Non-refundable
- Can carryover for 5 years in case of insufficient tax liability
- Deadline to donate is December 31st of each year
- Donation cannot be earmarked for specific students, but can earmark to a school or group of schools if the SGO chooses to allow
- Credit shall be reduced by the amount allowed as a credit on any State tax return (if state has program)

For the Parent:

- Parents must be 300% or below of the area median gross income to be eligible to receive a scholarship (in Baltimore, \$390,900; see [chart](#))
- Students must apply to an SGO approved to operate in the state
- No cap on maximum scholarships; amount is determined by SGO
- Scholarships can be stacked on top of state scholarships (e.g. BOOST)
- Scholarships can be awarded for all expenses eligible for a Coverdell account such as:
 - Tuition, fees, academic tutoring, special needs services, books, supplies and other equipment, room and board, uniform, transportation and supplementary items and services (including extended day programs), and computer technology or equipment or internet access and related services

For the SGO (Scholarship Granting Organizations)

- Must be a 501(c)3, and not a private foundation
- Must serve 10 or more students in at least two schools
- Must spend at least 90% of income on qualified scholarships
- Must have one or more separate accounts exclusively for qualified contributions
- Must be on annual list of SGOs submitted by governor or authorized state official to the Treasury Dept
- Must not provide scholarships for any expenses other than qualified expenses
- Must prioritize previous scholarship recipients, followed by siblings of previous recipients
- Cannot allow earmarking for specific students
- Verifies income to determine eligibility
- May not award a scholarship to a disqualified person (see [section 4946](#) of the Internal Revenue Code)

Why Should Maryland Opt In?

- **All Students Can Benefit:** SGOs can grant scholarships to all students: public school, charter school, and nonpublic school students alike.
- **Scholarships Will Help the Families Who Need It Most:** The scholarships are provided to students from low- and middle-income families, NOT to wealthy families.
- **Keep Maryland Dollars in Maryland:** The \$1,700 tax credit is for donations made to SGOs around the country. By opting in, Maryland will incentivize donors to direct their contributions to state-based SGOs, rather than diverting funds out of state.
- **No Cost to the State:** Despite Maryland's current fiscal challenges, this program does not cost the state ANYTHING. All Maryland needs to do is opt in, and then submit a list of eligible Maryland SGOs each January.

Please feel free to direct any questions to office@agudahmd.org.