

Federal Tuition Tax Credit



To qualify for a scholarship, students must come from households with an income of no more than 300% of their county's median income and be eligible to attend a public school.

Eligible expenses include all educational expenses covered by the Coverdell Education Savings Accounts (tuition, books, supplies, uniforms, room and board, computer equipment, and internet service), provided the enrollment is at an eligible educational institution. Once enrolled, eligible expenses include tuition, fees, tutoring, special needs services, books, supplies, computers, room and board, and transportation.

The organizations responsible for distributing these scholarships, known as Scholarship Granting Organizations (SGOs), must meet strict federal and state standards. To qualify, an SGO must be a federally recognized nonprofit (not a private foundation), serve at least ten students across more than one school, and allocate at least 90% of donations to approved educational expenses. SGOs must also verify the income of participating families and ensure that funds are not distributed to disqualified individuals, such as family members.

A few elements of the tax credit are particularly noteworthy:

1. It is a dollar-for-dollar credit with no cap on the total program.
2. It is a permanent tax credit with no sunset.
3. The income level is generous.

But the law isn't without limitations, some of which could affect its practical impact:

1. It is an opt-in program, meaning that states that currently lack school choice or that have governors opposed to choice are unlikely to participate.
 - Advocacy is centered here right now – the expectation when speaking to the press is that Governor Hochul will opt in. There is no cost to the state; she is a proponent of school choice, and there is no reason not to. Politically, she needs this for the 2026 reelection. Teachers' unions are advocating hard for her not to opt in.
 - It is an opt-in program right now because teachers' unions pushed for that in their lobbying efforts.
 - Donations will leave the state if she doesn't opt in.
 - Believe opt-in is an annual thing.

2. It requires enrollment in an eligible school before educational expenses of any kind can be distributed.
3. It is a \$1,700 credit. Every person who pays federal tax can receive up to that amount.
 - It becomes claimable for tax years *starting Jan. 1, 2027* (meaning you'd first use it when filing 2028 returns).
 - Nonrefundable: The credit can reduce your federal income tax liability, but won't generate a refund if the credit exceeds your tax owed.
 - Can donate to any SGO in any state to receive the tax credit.
 - Can direct the SGO to send your dollars to a diocese or even a school, but cannot direct it to a specific child.
 - Marketing Campaign to solicit as many donations as possible will commence soon.
 - The Treasury Dept is issuing regulations on the tax credit, but don't expect to see anything until late 2026.
4. Governors or other entities/individuals designated by state law must approve a list of SGOs.
 - SGOs must be submitted to the Federal Government annually by 1/1/2027 to be considered eligible for the year.
 - The 5 upstate dioceses do NOT have SGOs currently.
 - DRVC, Brooklyn/Queens & ADNY all have SGOs, and they are poised to begin implementation.
 - The Catholic Conference is working with Dioceses to determine what they plan to do about having an individual SGO.
 - Bison Fund works with Buffalo and Rochester currently.

<https://www.irs.gov/newsroom/treasury-irs-allow-states-to-make-an-advance-election-to-participate-in-the-new-federal-tax-credit-for-individual-contributions-to-scholarship-granting-organizations-under-the-one-big-beautiful-bill#:~:text=Beginning%20Jan.,taxpayer%20is%20limited%20to%20%241%2C700.>