



New Federal Tax Credit for Scholarships: What you need to know about the 2025 Bill

What Is the New Federal Education Tax Credit?

Starting in 2027, taxpayers will be able to claim a non-refundable federal tax credit of up to \$1,700 per year for donations to approved SGO.

A tax credit is a dollar-for-dollar reduction of your federal tax bill. That means, if I donate one dollar in this program, my federal taxes will be reduced by one dollar.

An SGO under the Act functions similarly to a scholarship organization under Pennsylvania's EITC program: a nonprofit entity that distributes funds to help families pay for qualified educational expenses.

How the Federal Education Tax Credit Works

The newly passed federal tax credit offers a strong incentive for taxpayers who want to support private K–12 education. Here's how it works:

- Dollar-for-dollar tax credit: When you make a donation to an approved SGO, you receive a nonrefundable federal tax credit equal to the full amount of your donation—up to the annual limit.
- Annual limit: The credit is capped at \$1,700 per taxpayer per year. This is a fixed dollar amount—not a percentage of adjusted gross income (AGI), as originally proposed.

This structure allows donors to make a meaningful impact on education while receiving a full tax benefit in return—at no net cost.

Key Features of the New Tax Credit

- Dollar-for-dollar federal tax credit – your donation costs you nothing.
- \$1,700 limit per taxpayer. At present, we are unsure if that means joint filers can double the tax credit.
- Eligible uses include:
 - Tuition and fees
 - Required books, supplies, and equipment
 - Academic tutoring
 - Special needs services
 - Room and board, uniforms, transportation, and other required items

Interaction With Pennsylvania's EITC Program

Pennsylvania currently offers:

- 75% state tax credit for one-year commitments to the state
- 90% credit for two-year commitments or for donors using Special Purpose Entities (SPEs)

Under this structure, donors often receive federal deductions for the small, non-credited portion of their donation, making the net out-of-pocket cost as little as six to ten cents on the dollar.

However, the federal bill includes a reduction clause:

"The amount allowed as a credit... shall be reduced by the amount allowed as a credit on any State tax return..."

This suggests the federal credit will replace the federal deduction for EITC gifts. Until the IRS issues guidance, the safest assumption is:

- No double-dipping on the state credit and a federal deduction.
- Donors may still be able to give larger amounts effectively at no cost.

For example, a family earning \$300,000 could give \$12,400 across state and federal programs and have it fully offset by credits.

What About Donors in Other States?

If you live in a state that does not have an EITC-style program, the new federal tax credit creates an opportunity to make gifts to approved SGOs and receive a dollar-for-dollar credit. These organizations can support students attending private or parochial schools of your choice.

Questions? Contact me!

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Ready to get started?

More info here: [Federal Program - Central Pennsylvania Scholarship Fund](#)



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