



TaxNewsFlash

Exempt Organizations

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Treasury previews regulations under section 25F, the new tax credit for gifts to scholarship granting organizations

The U.S. Treasury Department [previewed](#) forthcoming proposed regulations implementing section 25F, enacted under the “One Big Beautiful Bill Act,” which provides a new individual tax credit of up to \$1,700 beginning January 1, 2027, for qualified contributions to scholarship-granting organizations (SGOs) providing qualified elementary and secondary scholarships.

The preview addressed the following key issues:

- **90% spending requirement safe harbor:** A safe harbor will allow SGOs to measure the 90% spending requirement against the funds held in a segregated account (contributions plus earnings), rather than total receipts. Multistate SGOs will have to satisfy this for each state-specific account.
- **“Located in the state” definition:** An SGO will be considered “located in” a state if it is authorized to do business there and complies with general state rules for charitable organizations. States will be prohibited from creating SGO-specific rules that are more restrictive than the federal requirements under section 25F.
- **Multistate SGO operations:** SGOs will be allowed to operate in multiple states as long as they are “located in” each one. They will be required to maintain a separate segregated account for each state where they operate.
- **Definition of eligible “school”:** The definition will include public, private, and religious K-12 schools, as defined by state law. Homeschools will be eligible if they are recognized as schools under state law, and schools operated by federally recognized Tribes will also be included.
- **Student income verification:** SGOs will be able to verify a student’s household income using several methods, including direct verification or categorical eligibility, and there will be a safe harbor for foster children.
- **Fraud and abuse prevention:** SGOs must undergo an annual financial and programmatic audit by an independent third party (with a streamlined option for smaller SGOs).
- **Unique donor number reporting:** SGOs will issue donors a unique ID number provided by the IRS, rather than collecting Social Security numbers.
- **Planned IRS SGO portal:** The IRS intends to create a user-friendly online portal to streamline administration and reporting for SGOs.
- **Guidance on eligible expenses (section 530):** Additional guidance will be released separately to clarify what qualifies as an eligible educational expense under section 530, and it is expected that it will include services like academic tutoring and support for students with special needs.

Treasury expects to issue the proposed regulations by the end of September, and SGOs, states, and taxpayers are expected to be able to rely on those proposed regulations for tax year 2027.

Read the related [Treasury release](#)

Background

The IRS released [Notice 2025-70](#) in November 2025, requesting comments on the implementation of section 25F, in particular regarding aspects of the state certification process and SGO requirements, as well as reporting and recordkeeping requirements.

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