

Federal Scholarship Tax Credit (Education Freedom Tax Credit) in Tennessee⁷

26 U.S.C. 25F: statute, proposed and temporary regulations, and Tennessee status

Current as of October 21, 2026.

KEY FACTS

Credit amount	Up to \$1,700 per individual; up to \$3,400 for a married couple filing jointly if each spouse gives \$1,700 (under proposed rules). ^{1 4}
Start	Applies to taxable years ending after Dec. 31, 2026. Treasury and the IRS describe the credit as available for qualified contributions made on or after Jan. 1, 2027. ^{3 7}
What qualifies	Cash contributions to a scholarship granting organization (SGO) on a participating state's list, designated as qualified at the time of the contribution. ^{1 4}
Tennessee	On the IRS list of states that have made an advance election to participate for 2027 (as of Sept. 14, 2026). State SGO list due to the IRS by Feb. 15, 2027. ^{6 5}
Rule status	Proposed regulations; comments due Dec. 1, 2026; public hearing Dec. 15, 2026, 10 a.m. ET (cancelled if no outlines are received by Dec. 1). No final regulations. ⁴

1. Authority and who may claim

Section 25F was added by Pub. L. 119-21, sec. 70411, enacted July 4, 2025.³ The statute is binding.^{1 2} The temporary regulations (T.D. 10057) set binding procedures for states and SGOs, effective Dec. 1, 2026.⁵ The proposed regulations (REG-117199-25) are not final, but may be relied on for qualified contributions made on or after Jan. 1, 2027 if the applicable parts are followed in full and consistently; they could change.⁴

- The credit is allowed to a U.S. citizen or resident within the meaning of section 7701(a)(9). 25F(a).¹ A taxpayer may contribute to an SGO on any participating state's list, wherever the taxpayer lives. Prop. Reg. 1.25F-2(a)(1).⁴
- Partnership and S corporation contributions do not pass through. Prop. Reg. 1.25F-2(a)(3). Cash means currency, check, money order, electronic transfer, after-tax payroll deduction, or similar, in U.S. dollars; not digital assets. Any goods or services received reduce the amount. Prop. Reg. 1.25F-1(a)(12).⁴
- The Treasury and Department of Education FAQ states that donors do not need to itemize to claim the credit.¹³

2. Amount and joint filers

The statute caps the credit at \$1,700 per taxpayer per taxable year. 25F(b)(1).¹ The proposed rules treat spouses filing jointly as separate taxpayers for the cap, so the credit is up to \$1,700 per individual; up to \$3,400 for a married couple filing jointly if each spouse gives \$1,700 (under proposed rules). Prop. Reg. 1.25F-2(a)(2) and Example 2.⁴ The statute itself says only \$1,700 per taxpayer. Watch the final regulations.

The credit is the lesser of qualified contributions (reduced by any state credit for them) or \$1,700. Prop. Reg. 1.25F-2(c)(1). It may not exceed tax liability under section 26(a), after the personal credits named in Prop. Reg. 1.25F-2(d).⁴

3. Mechanics verified in the statute

- **Carryforward.** Credit above the section 26(a) limit carries to the next year, for up to five years, used first in, first out. 25F(f)(1), (2).¹ The proposed rules use carried credits before current-year credits. Prop. Reg. 1.25F-2(e).⁴
- **No double benefit.** A credited contribution cannot also be a section 170 charitable contribution. 25F(e).¹ Under the proposed rules, any portion not credited (for example, \$300 of a \$2,000 designated contribution) may be deductible if section 170 is met, and an amount that may be carried forward counts as allowed. Prop. Reg. 1.25F-2(f), (h).⁴
- **State credit reduction.** The federal credit is reduced by any state credit for the same contributions. 25F(b)(2).¹ The proposed rules apply a state credit first to any nonqualified portion. Prop. Reg. 1.25F-2(c)(2).⁴ Tennessee repealed the Hall income tax for tax periods beginning on or after Jan. 1, 2021, and the Department of Revenue tells taxpayers not to file a Hall return for those years.¹¹ For a client who files only in Tennessee, the reduction should generally not apply; a client who files in a state with its own scholarship credit should check that state's rules.
- **Recipients.** Section 139K excludes these scholarships from gross income for amounts received after Dec. 31, 2026.^{12 3}

4. The SGO must be on both lists

By statute, an SGO is a 501(c)(3) public charity that keeps qualified contributions in separate accounts, meets the operating rules of 25F(d), and is on a covered state's list for the year. 25F(c)(5).¹ Contributions must fund scholarships solely within that state. 25F(c)(3). The temporary rules require SGOs to register in the IRS SGO portal, and the IRS publishes an IRS SGO list drawn from state lists.⁵ Under the proposed rules, a donor may generally rely on an organization's presence on the IRS SGO list at the time of the contribution. Prop. Reg. 1.25F-2(b).⁴ Practice point: confirm the organization appears on both the state's list and the IRS SGO list on the contribution date. Neither the IRS SGO list nor Tennessee's list has been published.

5. Designation

- The donor must designate the contribution as qualified when it is made; the designation is irrevocable and may cover part of a contribution. Prop. Reg. 1.25F-1(a)(12)(i), 1.25F-2(h).⁴
- An SGO may not earmark or set aside contributions for any particular student. 25F(d)(1)(E).¹

6. Forms and timing

WHEN	WHO	WHAT HAPPENS	AUTHORITY
At the time of the contribution	Donor	Designates the cash contribution as a qualified contribution. The designation is irrevocable.	Prop. Reg. 1.25F-1(a)(12)(i) ⁴
By Jan. 31 of the following year	SGO	Gives each donor a written acknowledgement showing the SGO's EIN, the donor's total qualified contributions for the year, the donor's unique donor number, and whether any goods or services were provided (with a good faith estimate of their value).	Treas. Reg. 1.25F-4T(c)(1) (temporary rules, effective Dec. 1, 2026) ⁵
By Feb. 28 of the following year	SGO	Reports each donor's name, address, and total qualified contributions to the IRS.	Treas. Reg. 1.25F-4T(c)(2) ⁵
With the donor's return	Donor	Claims the credit on Form 8525, Federal Scholarship Tax Credit, attached to Form 1040, reporting the donor number from each SGO. A missing donor number creates a presumption that the contribution did not qualify, which the donor can rebut with the SGO's acknowledgement.	Prop. Reg. 1.25F-2(g)(1), (2) ⁴

Example. A qualified contribution made in 2027 is acknowledged by the SGO by Jan. 31, 2028 and claimed on the donor's 2027 return. Keep the acknowledgement with the return records. Form 8525 and its instructions were not yet published on irs.gov as of October 21, 2026.

7. State opt-in and Tennessee

A state must elect each year and submit its list of SGOs located in the state. 25F(c)(1), (g).¹ For 2027, a state files an advance election by Jan. 1, 2027 and perfects it by submitting its list by Feb. 15, 2027; if it does not, no organization in that state qualifies for 2027. Treas. Reg. 1.25F-5T(c)(3).⁵ Tennessee's Pub. Ch. 720 directs the Commissioner of Education to elect and the Department of Education to submit the list and publish it on its website.⁸ Tennessee is on the IRS list of states that have made an advance election to participate for 2027 (as of Sept. 14, 2026).⁶ The Department opened a preliminary interest form for SGOs on Oct. 7, 2026 and says a formal application will be released later this fall.^{10,9} Tennessee's 2027 SGO list had not been published as of October 21, 2026. The election is perfected only when Tennessee submits its list.

8. Open questions

- Final regulations, including the joint-filer interpretation. No date announced.⁴
- Form 8525 and instructions, the IRS SGO portal, and the IRS SGO list: none published on irs.gov as of October 21, 2026.⁶
- Annual area median gross income figures for the 300 percent test: not yet published as of October 21, 2026.⁴
- Expense guidance under 530(b)(3)(A), including home school costs: not yet issued as of October 21, 2026.⁴
- Tennessee's formal application (expected later this fall), any rules under Tenn. Code Ann. 49-1-1303(b), intake deadline, and 2027 list: none published as of October 21, 2026.⁹

SOURCES

1. 26 U.S.C. 25F, Legal Information Institute. law.cornell.edu/uscode/text/26/25F
2. 26 U.S.C. 25F, Office of the Law Revision Counsel. uscode.house.gov/us/usc/119-118/t26/s25F/
3. Pub. L. 119-21, sec. 70411 (July 4, 2025). govinfo.gov/content/pkg/PLAW-119publ21/pdf/PLAW-119publ21.pdf
4. Proposed regulations, REG-117199-25, 91 FR 62818 (Oct. 2, 2026). federalregister.gov/documents/2026/10/02/2026-20277/federal-scholarship-tax-credit
5. Temporary regulations, T.D. 10057, 91 FR 62655 (Oct. 2, 2026). federalregister.gov/documents/2026/10/02/2026-20264/federal-scholarship-tax-credit
6. IRS, Federal Scholarship Tax Credit (FSTC), participating states for 2027 (as of Sept. 14, 2026). irs.gov/government-entities/federal-state-local-governments/federal-scholarship-tax-credit-fstc
7. U.S. Treasury press release SB0641 (Oct. 1, 2026). home.treasury.gov/news/press-releases/sb0641
8. Tenn. Pub. Ch. 720 (2026), Tenn. Code Ann. 49-1-1301 to 1305. publications.tnsosfiles.com/acts/114/pub/pc0720.pdf
9. Tennessee Department of Education, Scholarship Granting Organizations. tn.gov/education/about-the-tdoe/scholarship-granting-organizations.html
10. Tennessee Department of Education news release (Oct. 7, 2026). tn.gov/education/news/2026/10/7/tennessee-advances-participation-in-the-federal-education-tax-credit-program-.html
11. Tennessee Department of Revenue, Hall income tax. tn.gov/revenue/taxes/hall-income-tax.html
12. 26 U.S.C. 139K, Legal Information Institute. law.cornell.edu/uscode/text/26/139K
13. U.S. Treasury and U.S. Department of Education FAQ. home.treasury.gov/system/files/136/Treasury-ED%20EFTC%20FAQ.pdf

See also (educationchoicfund.org): [Tennessee SGOs https://educationchoicfund.org/tennessee-sgo/](https://educationchoicfund.org/tennessee-sgo/) · [The Education Freedom Tax Credit in Tennessee https://educationchoicfund.org/education-freedom-tax-credit-tennessee/](https://educationchoicfund.org/education-freedom-tax-credit-tennessee/) · [National and Tennessee SGOs compared https://educationchoicfund.org/national-vs-tennessee-sgo/](https://educationchoicfund.org/national-vs-tennessee-sgo/)

Get law and guidance updates

Optional. Short notes when the law, the rules, or Tennessee's process changes.

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Prepared by Education Choice Fund, a Tennessee scholarship-granting organization in formation, started by Tennessee families. ECF scholarships go mainly to Tennessee students at Tennessee Christian schools. educationchoicfund.org

ECF intends to apply to the State of Tennessee as an SGO and is not yet on Tennessee's SGO list or the IRS SGO list.

Starting January 1, 2027, and once ECF is on Tennessee's SGO list and the IRS SGO list, donors may designate a preferred partner school. No donor ever designates a student.

This brief is general information for tax professionals, not tax or legal advice. The credit is up to \$1,700 per individual; up to \$3,400 for a married couple filing jointly if each spouse gives \$1,700 (under proposed rules; Prop. Reg. 1.25F-2(a)(2) and (h)(2)). It is the lesser of qualified contributions, reduced by any state credit, or \$1,700, and is limited by tax liability under section 26(a), with a five-year carryforward (25F(f)). A qualified contribution is cash, made on or after January 1, 2027, to an SGO on the State's list (25F(c)(3)), designated at the time it is made. The proposed regulations are not final and may change. Confirm each client's facts before advising.