NEWS

Education Freedom Tax Credit: What HR Needs to Know Before 2027

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A new federal tax credit for contributions supporting K-12 education takes effect next year, creating a potential opportunity for employers to expand their workplace giving programs. But HR professionals may want to wait for additional IRS guidance before deciding whether payroll deductions or other employer-facilitated contributions are worth implementing.

The Education Freedom Tax Credit, created by the **One Big Beautiful Bill Act - (https://www.shrm.org/topics-tools/employment-law-compliance/15-takeaways-hr-pros-from-one-big-beautiful-bill-act)** , takes effect Jan. 1, 2027. It allows individual taxpayers to claim a nonrefundable federal income tax credit of up to $1,700 for qualifying cash contributions to Scholarship Granting Organizations, or SGOs. Those organizations use donations to provide scholarships covering qualified elementary and secondary education expenses.

Importantly for HR, the credit does not provide a tax incentive directly to employers.

“The tax benefit that it provides is a $1,700 non-refundable tax credit to individuals for contributions to Scholarship Granting Organizations,” said Marcia Wagner, an attorney and founder of The Wagner Law

Group in Boston.

Because the benefit belongs to employees rather than their employers, companies considering the credit would essentially be helping workers take advantage of an individual tax incentive — potentially by facilitating contributions through payroll deductions.

Toolkit: Designing and Managing Educational Assistance Programs - (

https://www.shrm.org/topics-tools/tools/toolkits/designing-managing-educational-assistance-programs)

How the Credit Works

The $1,700 credit is nonrefundable, meaning it can lower an individual's federal income tax bill to zero, but they won't receive any leftover credit as a refund. Nonetheless, unused credits generally can be carried forward for up to five years.

Taxpayers also cannot double-dip by claiming both the federal credit and a charitable deduction on the same dollars.

"This does not mean that the employee is limited to a $1,700 qualified contribution to the scholarship granting organization," Wagner said. "Rather, it means that any amount contributed in excess of $1,700 may be available for the taxpayer to claim as a charitable deduction."

The federal credit is also reduced by credits allowed under state law for the same qualifying contribution.

Participation is not nationwide. States must voluntarily opt into the federal program and submit lists of qualifying SGOs to the IRS. As of July 24, 30 states had made advance elections to participate in 2027.

Employees also cannot direct their contributions toward scholarships for their own children. SGOs are prohibited from earmarking contributions for particular students.

Is It Really an Employee Benefit?

Employers could potentially allow employees to make after-tax SGO contributions through payroll, much as they facilitate other workplace charitable giving. That convenience could make the credit an inexpensive addition to an employer's benefits or corporate social responsibility program.

But whether employees would actually view that as a meaningful workplace benefit remains uncertain.

“It is difficult to determine if actions taken by an employer to facilitate contributions by employees to scholarship granting organizations through payroll deductions will provide any competitive advantage with respect to either the recruiting or retention of employees for a variety of reasons,” Wagner said.

One drawback is that employees may prefer to make contributions themselves rather than have money deducted from every paycheck. As Wagner noted, “because the contributions are made on an after-tax basis, an employee may prefer to have more control over the timing of the contributions to the scholarship granting organization than through bi-weekly contributions by way of payroll deduction.”

There is also a fundamental difference from benefits such as health coverage, retirement contributions or **tuition assistance - (https://www.shrm.org/topics-tools/tools/toolkits/designing-managing-educational-assistance-programs)** : employees are giving away their own money, and the resulting scholarships generally do not directly benefit them or their children.

Administrative Questions Remain

Payroll deductions could also create administrative complications depending on how the IRS structures reporting and acknowledgment requirements.

For example, employers may need to determine how employees designate contributions as qualifying for the credit, how SGOs acknowledge recurring payroll contributions, and what happens to documentation when an employee leaves during the year.

“The scholarship granting organization presumably can wait until year end to provide written acknowledgment to the donor, but that could provide an administrative issue for a plan sponsor if an employee leaves midyear,” Wagner said.

The IRS has previously developed detailed rules for charitable contributions made through payroll deductions, meaning similar procedures could eventually be established for SGO contributions.

For now, however, some of those implementation questions remain unresolved. The Department of the Treasury said in June that it expects proposed Section 25F regulations no later than the end of September and that states, SGOs, and taxpayers will be able to rely on those regulations for the 2027 tax year.

That gives employers several months to establish a program before the credit becomes available.

“HR should wait to the extent possible so that it has the maximum amount of available guidance from [the] IRS,” Wagner said.

In the meantime, HR **teams interested in offering payroll contributions - (https://www.shrm.org/topics-tools/tools/hr-answers/total-rewards-strategies-can-give-idea-how-to-develop-total-rewards-strategy)** can review their existing charitable-giving infrastructure and coordinate with payroll, benefits and legal teams. Once the IRS releases its proposed rules, employers will be in a better position to decide whether facilitating the credit offers employees enough value to justify the additional administrative work.