The Federal Scholarship Tax Credit: An HR Leader’s Guide to Workplace Scholarship Giving

How a new federal credit lets employees turn taxes they already owe into K–12 scholarships.

EXECUTIVE SUMMARY

On January 1, 2027, the first federal tax credit for a charitable gift takes effect. The Federal Scholarship Tax Credit (FSTC) allows every American taxpayer to direct up to $1,700 per year to K–12 scholarship funds, and reduces their federal income tax by every dollar given. Not a deduction: a full, dollar-for-dollar credit.

Most taxpayers will never use it on their own. Finding a qualified fund, giving, keeping the record, and claiming the credit at filing is more work than most people will do for a credit they have never heard of. The workplace is where this becomes simple: a voluntary payroll deduction makes the gift automatic, the employer's communications make it visible, and the program administrator handles everything else.

This paper explains how the credit works, what a workplace giving program asks of the employer, the compliance guardrails that keep it clean, and the questions your CFO and counsel will ask. It is written for HR leaders evaluating whether to offer a program for the credit's first year.

One disclosure up front: Workplace Scholarships is an independent, newly established federal 501(c)(3) nonprofit scholarship granting organization. Registration as an approved SGO in each opt-in state for the 2027 program year is in process, and no employee money is collected until that is complete.

SECTION 01

The credit, in plain English

The FSTC (enacted as Section 25F of the Internal Revenue Code) permits any individual taxpayer to claim a federal income tax credit for gifts to qualified Scholarship Granting Organizations (SGOs), up to $1,700 per taxpayer per year. Key features:

- **Dollar-for-dollar.** Every dollar given reduces federal income tax owed by one dollar, up to the cap. The credit cannot exceed the giver's tax liability; unused amounts carry forward up to five years.
- **Per taxpayer.** $1,700 per person. Treasury's proposed regulations treat spouses on a joint return as two taxpayers, so a married couple filing jointly can claim up to $3,400 if each spouse gives $1,700. Each spouse's gift is made and acknowledged separately.
- **Federal and universal on the giving side.** A taxpayer in any state can give and claim the credit.
- **State opt-in on the award side.** Scholarships are awarded to children in states that have opted into the program.
- **Broad student eligibility.** K–12 students in families earning up to 300% of their area's median income qualify; in most of the country, the overwhelming majority of working families. Children in public school and private school qualify; homeschool students qualify in states that treat homeschools as private schools.
- **Broad use of funds.** Scholarships pay for tuition and other qualified education expenses, including curriculum and AI-powered learning software.
- **Permanent, with no nationwide cap.**

SECTION 02

Payroll makes giving automatic

A workplace giving program uses one routine payroll event: a small voluntary post-tax deduction each pay period. For the full credit that is $65.38 biweekly, $1,700 over 26 paychecks. Employees who owe less than $1,700 in federal income tax can give less.

The gift is remitted to the scholarship fund. At tax time the employee claims the credit and gets every dollar back. The scholarships are funded in full and the employee's net cost is zero; the only thing the employee gives up is the use of the money between the paycheck and the refund.

> **Optional: keep take-home pay level.** An employee who would rather not wait for the refund can file an updated Form W-4 (Step 3, credits) so federal withholding drops by the amount of the gift each paycheck. The gift goes in, less tax comes out, take-home pay stays about the same, and the credit at filing squares it. Employees make this change themselves in payroll self-service; the program provides the instructions and support, and nobody has to do it to participate.

SECTION 03

What it means at company scale

As an illustrative example: at a company of 15,000 employees where 20% participate at the maximum, employees would direct $5,100,000 per year into K–12 scholarships, at zero cost to the company and zero net cost to the givers.

For HR leaders, the program reads as a rare combination: a benefit-like experience employees value personally (their own children can apply for the scholarships on the same terms as all eligible families), a measurable engagement driver, and a community story carrying the company's name, with no budget line.

SECTION 04

What the employer actually does

A well-designed program asks two things of the employer:

- **One setup session** (about 30 minutes of the team's time): program name, branding, locations, pay schedule, and one payroll deduction code, the same routine as any voluntary deduction. No system integration. Each pay period, payroll remits the deductions with its standard per-employee deduction report; we use it to issue each employee the donor number they report on their tax return.
- **Approve a pre-written announcement.** Communications arrive drafted; nothing is sent without HR sign-off.

Everything else, including enrollment, the scholarship fund, tax-season support, reporting, and compliance, is the program administrator's job, not HR's. Employees enroll in about five minutes from a text or email. Employees who choose the optional withholding adjustment update their own W-4 in payroll self-service, as they would for any other change.

SECTION 05

The compliance guardrails

Several bright lines keep a workplace program clean, and HR should expect any provider to state them plainly:

- **No employer money.** The fund is built entirely from employees' voluntary gifts. The employer contributes nothing and the program is not compensation; it is workplace giving.
- **No influence over awards.** Federal rules prohibit linking any gift to any award. Families apply directly to the scholarship organization; an independent committee decides under published charitable-purpose criteria; the employer never sees an application.
- **Privacy by architecture.** Applications and household income documentation go to the scholarship platform, never to HR. Employer dashboards show aggregate figures only.
- **Certification before collection.** SGOs must be certified; no employee money should be collected until certification is complete. If approvals slip past January 1, deductions simply begin later.

SECTION 06

What your CFO and counsel will ask

The internal questions worth having answers to before launch, and what good answers look like:

- Where is the money held, and who audits it? (Established scholarship-funding infrastructure, an FDIC-member banking partner, independent audit, full IRS reporting.)
- What does the program cost, now and later? (Federal law caps administrative retention at 10% of donations; many funds keep less. Know what your fund actually keeps.)
- What happens at tax time, and who supports employees? (Gift sizing at enrollment, a fall re-check, and support that never routes to HR.)
- What does the employer-facing tooling include? (Enrollment, drafted communications, live dashboards, exports.)
- What is the certification status and timeline? (No employee money collected before certification is complete.)

SECTION 07

About Workplace Scholarships

Workplace Scholarships is an independent, newly established federal 501(c)(3) nonprofit scholarship granting organization built for exactly this program. Employees enroll in minutes; HR manages the program from a live console; every communication arrives drafted for approval. The fund, administration, security, and compliance are handled on Student First Technologies, which reports managing over $500 million in scholarship funding across 15 states. In Year 1, 100% of what employees raise goes to scholarships, because our founders donated all first-year administrative costs. There are no fees to employers, ever.

Employer onboarding for the January 1, 2027 launch is underway.
workplacescholarships.org

Workplace Scholarships is an independent federal 501(c)(3) nonprofit scholarship granting organization, registering as an approved Scholarship Granting Organization in each opt-in state for the 2027 program year. Nothing in this paper is tax, legal, or investment advice; individuals should consult their own advisors. Treasury issued temporary and proposed regulations for the credit on October 1, 2026; taxpayers may rely on the proposed rules for 2027 contributions until final rules are published. Program details may change.