

DONOR EDUCATION GUIDE

Tax Credit vs. Tax Deduction

Why the Federal Scholarship Tax Credit is different from a standard charitable deduction, and why donors should understand the difference before making a gift.



\$ Tax Credit

A tax credit reduces the tax you owe. It is applied against your federal income tax liability, subject to the rules for that credit.

Think: reduces the bill itself.

% Tax Deduction

A deduction reduces taxable income before tax is calculated. The tax savings depends on the donor's marginal tax rate and whether the donor itemizes.

Think: reduces taxable income.

FSTC Under Section 25F, the FSTC is designed as a federal income tax credit for qualified cash contributions to listed Scholarship Granting Organizations in participating states, subject to statutory limits and final guidance.

Bottom line: A credit can be much more valuable than a deduction because it can reduce tax owed dollar-for-dollar. The FSTC still depends on tax liability, state participation, qualified contribution rules, and final IRS/Treasury procedures.

EXAMPLES

Same Gift. Very Different Tax Result.

These simplified examples are for education only. They do not include state taxes, itemization limits, alternative minimum tax, other credits, phaseouts, or individual tax circumstances.

If treated as a deduction

A donor gives \$1,700. If the donor itemizes and is in a 24% marginal bracket, the rough federal tax savings from a deduction would be about \$408.

$$\$1,700 \times 24\% \approx \$408$$

Actual benefit depends on tax situation.

If eligible for the FSTC

A donor gives \$1,700 as a qualified cash contribution. If the donor has enough federal income tax liability and all rules are met, the credit may reduce federal income tax by up to \$1,700.

$$\$1,700 \text{ credit up to } \$1,700$$

Subject to liability and program rules.

Why this matters for EdGen donors

● Dollar-for-dollar

Credits reduce tax owed directly, unlike deductions that reduce taxable income.

● Cash contribution

Section 25F defines qualified contributions as charitable contributions of cash to an eligible SGO.

● No double benefit

Donors should not assume they can claim both the FSTC and another tax benefit for the same dollars.

● Advisor review

Each donor should confirm tax liability, timing, and credit use with a qualified tax advisor.

The \$0 net-out-of-pocket message needs context

For many donors with sufficient federal tax liability, a \$1,700 qualified contribution may produce an equal federal tax credit. But the credit is nonrefundable, timing matters, and unused amounts may involve carryforward rules. EdGen should present this clearly and avoid guaranteeing a particular donor result.



CHECKLIST

Questions to Ask Before Donating

This page can be shared with donors and tax advisors. It is not tax advice, but it frames the key questions donors should evaluate before relying on the FSTC.

1

1. Do I have enough federal income tax liability?

The FSTC is expected to reduce federal income tax liability, not automatically create a refund.

2

2. Am I giving to a listed SGO in a participating state?

State participation and SGO listing are core program requirements.

3

3. Is my gift a qualified cash contribution?

Section 25F refers to charitable contributions of cash to an SGO for eligible scholarships.

4

4. Am I trying to claim another benefit for the same dollars?

Donors should review the no-double-benefit rules with their advisor.

5

5. How will the credit interact with other credits?

Other nonrefundable or refundable credits may affect the donor's return and usable tax benefit.

6

6. What documents should I keep?

Keep receipts, acknowledgments, forms, and any IRS-required documentation for the donation year.

Source notes for this explainer

IRS general tax guidance explains that credits reduce tax owed while deductions reduce taxable income. IRS FSTC guidance describes qualified cash contributions up to \$1,700 beginning January 1, 2027, subject to participating-state and SGO-list requirements. Section 25F controls the statutory requirements.

EdGen materials should be updated when Treasury/IRS issues final forms, documentation requirements, and detailed implementation guidance.