MILLER JOHNSON Attorneys

Scholarship Granting Organizations



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Agenda

- Program Overview
- Student Eligibility & Scholarship Uses
- SGOs & Governance
- Compliance & Conflict Issues
- Michigan Status & District Considerations
- Questions & Discussion

The Federal Scholarship Tax Credit (IRC § 25F)

What Michigan School Districts Need to Know:

- New federal tax credit enacted under the One Big Beautiful Bill Act.
- Effective January 1, 2027.
- Creates a federal incentive for donations to Scholarship Granting Organizations (SGOs).
- May affect both private and public-school students.
- Michigan has not yet opted into the program.

Session Objectives

By the end of today's session, participants should understand:

- How the tax credit works.
- The role of SGOs.
- Student eligibility requirements.
- Opportunities for public schools.
- Potential risks and compliance issues.
- Michigan's current status.
- Considerations for district foundations.

What is the Federal Scholarship Tax Credit?

The program allows taxpayers to receive a federal tax credit for contributions to approved SGOs.

Key Features:

- Up to $1,700 credit per taxpayer.
- Potentially up to $3,400 for married couples.
- Credit reduces federal income tax liability dollar-for-dollar.
- Begins January 1, 2027.
- **Important:** This is a **tax credit**, not a federal grant program.

How the Program Works

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Step 1

- Taxpayer contributes funds.

2

Step 2

- Approved SGO receives donation.

3

Step 3

- SGO awards scholarship.

4

Step 4

- Scholarship funds approved educational expenses.

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Step 5

- Taxpayer claims tax credit.

Who Oversees the Program?

IRS	• Administers federal tax credit. • Receives reports from SGOs. • Coordinates with participating states.
States	• Elect whether to participate. • Certify SGOs. • Monitor compliance.
SGOs	• Verify eligibility. • Award scholarships. • Maintain records.

What is an SGO?

An SGO must generally be:

- A 501(c)(3) public charity.
- Approved by the state.
- Listed with the IRS.
- Operated primarily for scholarship purposes.

Examples:

- Statewide scholarship nonprofit.
- Community foundation.
- Education foundation.
- Newly-created scholarship organization.

Why Governance Matters

An SGO is not simply a fundraising entity.

It must:

- Verify eligibility.
- Award scholarships fairly.
- Maintain independence.
- Prevent conflicts of interest.
- Survive independent audits.
- Demonstrate accountability.

Poor governance could jeopardize participation.

Recommended Governance Structure

Board of Directors

Responsible for:

- Policies
- Strategic oversight
- Audit review
- Compliance

Scholarship Selection Committee

Responsible for:

- Reviewing applications
- Applying award criteria
- Approving scholarships

Administrative Staff

Responsible for:

- Intake
- Verification
- Record retention
- Reporting

Best practice: Separate these functions.

Sample Scholarship Selection Committee

Suggested membership:

- Community leader.
- CPA or finance professional.
- Retired educator.
- Foundation representative.
- Nonprofit representative.

Consider avoiding a committee composed entirely of district employees.

Goal: promote independence and public confidence.

What Must an SGO Do?

Federal requirements generally include:

- Serve at least 10 students.
- Serve more than one school.
- Verify eligibility.
- Prevent duplicate awards.
- Conduct annual audits.
- Comply with state requirements.

Student Eligibility



Students generally must:

- Be eligible to enroll in a public school.
- Meet income requirements.
- Live in a participating state.



Treasury estimates that most students in participating states could qualify.

Income Eligibility

Standard

- Household income at or below 300% of Area Median Income (AMI).

Practical effect

- Significantly broader than many traditional need-based programs.
- Many middle-income families may qualify.

What May Scholarships Fund?

Examples include:

- Private-school tuition.
- Tutoring.
- Educational services.
- Educational materials.
- Certain special-needs supports.

Treasury guidance on some qualifying expenses is still pending.

Why Public Schools Should Care



The program is **not** limited to private-school tuition.



Potential public-school uses include:

- Reading intervention
- Math intervention
- High-impact tutoring
- Summer learning
- Supplemental educational services

Public School Example

Local SGO raises $500,000.

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Student qualifies.

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Scholarship awarded.

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Third-party tutoring provider receives payment.

↓

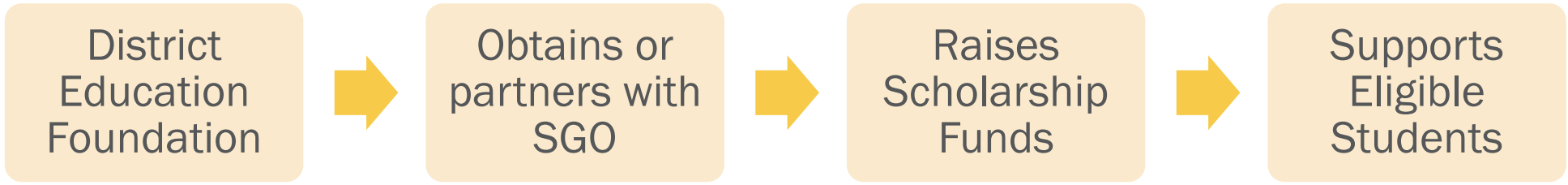
Student receives services.

↓

The district **benefits educationally** even though scholarship funds do not flow through district accounts.

District Foundation Model

Potential structure:



Conflict of Interest Risks

Conflicts arise whenever personal interests may influence scholarship decisions.

Examples:

- Child of committee member receives award.
- Donor seeks preferred treatment.
- Vendor participates in award decisions.
- Board member benefits financially.
- Transparency is essential.

Who Should be Excluded from Decisions?

Individuals should generally not participate in decisions involving:

- Immediate family members.
- Their employer.
- Their business.
- Organizations from which they receive compensation.
- Students for whom they have personal advocacy roles.

Earmarking Concerns

Improper

- “I'll donate if Johnny receives the award.”
- “I will donate only if funds go to my grandchild.”

Appropriate

- “I am donating to support scholarships generally.”

Award decisions must remain independent.

Recommended Conflict of Interest Policy

- Annual disclosures.
- Written conflict questionnaires.
- Mandatory recusal procedures.
- Documented recusals.
- Board review of conflicts.
- Annual policy acknowledgment.

Vendor Conflicts

Potential issue:

- Tutor serves on award committee.

Potential issue:

- Vendor influences student selection.

Recommended controls:

- No voting rights.
- Mandatory disclosures.
- Independent review process.
- Written procurement standards.

Financial Controls



SEPARATE BANK ACCOUNT.



DUAL-SIGNATURE AUTHORIZATION.



INDEPENDENT AUDIT.



WRITTEN SPENDING POLICIES.



ANNUAL BUDGET APPROVAL.



SCHOLARSHIP TRACKING SYSTEM.



BUSINESS MANAGERS WILL RECOGNIZE THESE AS STANDARD NONPROFIT CONTROLS.

What Auditors Will Likely Examine

Can the SGO demonstrate:

- Student eligibility?
- Scholarship approval process?
- Proper use of funds?
- Separation of duties?
- Conflict disclosures?
- Board oversight?

Documentation will be critical.

Michigan Status

As of November 2026

- Michigan has not opted into the Federal Scholarship Tax Credit program.
- No Michigan SGOs have been certified under the program.
- Participation remains a policy decision for state leadership.

Practical Takeaway

- Districts should monitor developments but should not assume participation until the State formally elects to join.

Questions for Michigan School Districts

- Does your district have an education foundation?
- Would your foundation consider becoming an SGO?
- What student services would be priorities?
- How would governance be structured?
- How would conflicts of interest be managed?
- What internal controls would be necessary?
- What benefits and risks do you see?

Questions?



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