

**Subject** Opting Minnesota into the federal tax credit for scholarship-granting organization, adopting related income tax provisions

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## Overview

Public Law 119-21, also known as the “One Big Beautiful Bill Act,” (OBBBA) established a new federal tax credit for “scholarship-granting organizations,” or SGOs. H.F. 3490 would opt Minnesota into the federal SGO tax credit program and adopt related federal tax changes for the purposes of the state income tax. Opting into the program would allow taxpayers in Minnesota and other states to receive federal tax credits if they make a donation to an SGO serving Minnesota’s K-12 schools.

Minnesota residents can contribute to SGOs in other states regardless of the decision to opt into the program—section 1 of the bill would allow donations to Minnesota-based SGOs to qualify for the federal credit, and section 2 would apply two policies to the state’s income tax:

- scholarships from an SGO to a student would not be considered income to the student; and
- taxpayers would not be allowed to take a charitable contribution deductions for amounts contributed to an SGO.

### *Background on the federal tax provision*

OBBBA establishes a 100 percent federal tax credit of \$1,700 for taxpayers who make a donation to an SGO that awards scholarships for K-12 education. The tax credit is nonrefundable, but unused amounts in a given tax year would roll over for up to five taxable years.

OBBBA requires states to elect whether to opt in and allows state SGOs to participate in the program through an election made by governor or the entity designated in state law to make such decisions. If the state elects to participate, the state must submit to the United States Secretary of the Treasury a list of the organizations that meet the criteria to be considered an SGO. The decision to opt

in does not by itself affect state taxes, it only determines whether donations to Minnesota-based SGOs would qualify for the federal credit.

Some of the requirements for an organization to be considered SGO include:

- The organization must be organized as a tax exempt 501(c)(3), and must not be a private foundation.
- The organization must provide scholarships to “eligible students” whose income is less than 300 percent of the area median gross income and who are eligible for public school. Area median gross incomes are calculated by the United States Department of Housing and Urban Development (HUD). HUD calculates these limits at the metropolitan area level for metropolitan areas, and at the county level for nonmetropolitan areas. In the Minneapolis-St. Paul-Bloomington HUD metro area for FY 25, the median income is \$132,400, meaning the income limit for a scholarship would be \$397,200.
- The organization must annually provide scholarships to ten or more students who do not all attend the same schools.
- The organization must spend 90 percent of their income on scholarships to students for tuition and other educational expenses such as tutoring, special needs services, books, supplies, room and board, and technology.
- The organization must prioritize giving scholarships to students who were awarded a scholarship the previous year and their siblings. The organization cannot allow contributions to be earmarked for a particular student.

## Summary

Section	Description
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1	<b>Scholarship-granting organizations.</b>
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Opts Minnesota into participating in the federal scholarship-granting organizations tax credit.

**Subd. 1. Minnesota is a covered state.** Declares that Minnesota elects to participate in the federal SGO program. The amendment adds language requiring the commissioner of education to submit a list of SGOs to the United States Secretary of the Treasury by January 1 of each year.

**Subd. 2. Scholarship-granting organization.** Defines “scholarship-granting organization” in a manner consistent with the definition in federal law. Requires SGOs to annually notify MDE of their compliance with federal rules and guidance.

Section	Description
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**Subd. 3. List of eligible scholarship-granting organizations.** Requires MDE to post to its website a list of SGOs that have reported their eligibility for the program to the department.

**Subd. 4. Effect on nonpublic spending.** Specifies that nothing in the section authorizes MDE or a school district to exercise control or supervision on a nonpublic school, nonpublic student, or nonpublic parent.

2 **Internal Revenue Code.**

Adopts the federal tax changes in OBBBA for the purposes of the state income tax. This would have two main effects:

- 1) scholarships from an SGO to a student would not be considered income of the student for the purposes of Minnesota's income tax; and
- 2) taxpayers who contribute to an SGO (in Minnesota or elsewhere) could not claim a charitable contribution deduction for the purposes of the state income tax.



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