



ARIZONA STATE SENATE
Fifty-Seventh Legislature, Second Regular Session

VETOED
FACT SHEET FOR S.B. 1142

federal tax credit; authorization; scholarships

Purpose

Declares the state's election to participate in the federal tax credit for individuals who make qualified contributions to scholarship granting organizations (SGOs) and outlines SGO certification and administration requirements

Background

On July 4, 2025, major federal tax changes were enacted through H.R. 1, commonly referred to as the One Big Beautiful Bill. H.R. 1 establishes the federal tax credit for individuals who make qualified contributions to SGOs that serve elementary and secondary school students. Qualified contributions include various education expenses like tuition, fees, uniforms, transportation, supplies and other expenses. To qualify as an SGO, the entity must: 1) provide scholarships to 10 or more students who do not attend the same school; 2) spend at least 90 percent of the entity's income on scholarships; 3) prioritize scholarships for students who were awarded a scholarship the previous school year, and such students' siblings; and 4) verify that the household income of the student's family does not exceed 300 percent of the area median gross income. The federal tax credit becomes available for taxable years beginning January 1, 2027.

H.R. 1 requires the Governor or another individual, agency or entity authorized by state law to voluntarily elect to participate in the SGO tax credit program in order for Arizona residents to be eligible to receive the federal tax credit. The SGO credit is capped at \$1,700 per taxpayer and the amount of the federal tax credit must be reduced on a dollar-for-dollar basis by the amount available as a credit for state income tax purposes for qualified contributions made by the taxpayer during the taxable year ([26 U.S.C. § 25F](#)).

There is no anticipated fiscal impact to the state General Fund associated with this legislation.

Provisions

1. Declares that Arizona elects to participate in the federal tax credit for individuals who make qualified contributions to SGOs.
2. Requires the Arizona Department of Revenue (ADOR) to comply with all federal laws and regulations to administer the federal SGO credit to ensure Arizona is eligible to participate in taxable years beginning January 1, 2027, and to annually submit all required information to the U.S. Secretary of the Treasury for participation.

3. Allows a nonprofit organization in Arizona that is exempt, or that has applied for exemption, from federal taxation to apply to ADOR for certification as an SGO and requires ADOR to certify that the SGO meets the federal requirements and applicable regulations or guidance issued by the U.S. Secretary of the Treasury.
4. Requires ADOR, by January 1 of each year, to:
 - a) submit to the U.S. Secretary of the Treasury a list of certified SGOs located in Arizona; and
 - b) post the list on ADOR's official website.
5. Requires ADOR to adopt rules and publish and prescribe forms and procedures necessary to administer SGO certification requirements.
6. Allows, beginning January 1, 2027, an ADOR-certified SGO that is on the list submitted to the U.S. Secretary of the Treasury to provide scholarships to eligible students for any qualified elementary or secondary education expenses to the extent allowed under federal law.
7. Becomes effective on the general effective date.

Governor's Veto Message

The Governor indicates in her [veto message](#) that signing S.B. 1142 before the federal government has released any regulatory guidance is irresponsible.

Senate Action

FIN 1/26/26 DP 4-3-0
3rd Read 2/25/26 16-11-3

House Action

WM 3/11/26 DP 5-3-0-1
3rd Read 4/7/26 33-26-1

Vetoed by the Governor 4/13/26

Prepared by Senate Research

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MG/hk