Federal Scholarship Tax Credit

How It Operates, What It Means for States, and What Is Still Being Decided

A Policy Primer

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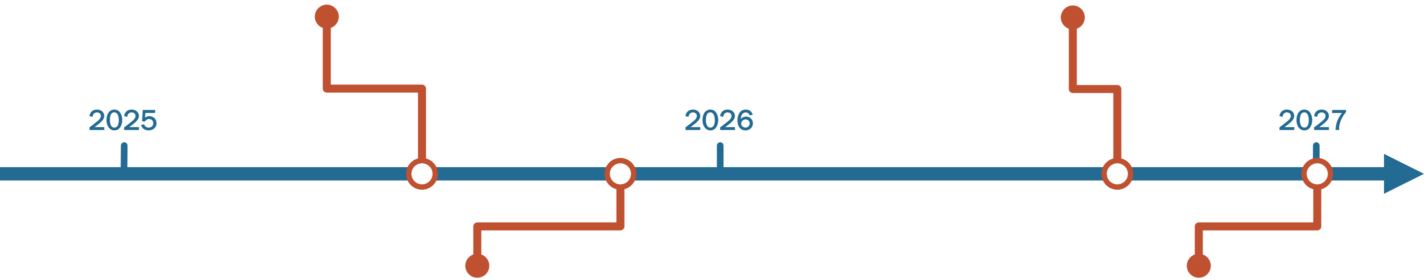
Understanding the Program Basics

Timeline at a Glance

July 2025: Federal Scholarship Tax Credit enacted as part of One Big Beautiful Bill Act (OBBBA; P.L. 119-21). U.S. Treasury and IRS will administer program.

September 2026: In June and July of 2026 Treasury indicated that an interim final rule (regulation) will be issued by end of September 2026, and stakeholders will be able to rely on this rule for tax year 2027.



November 2025: Treasury released a request for comments, including input regarding scholarship granting organization (SGO) requirements pertaining to what counts as SGO income, how an SGO can operate in multiple states, and what qualifies as meeting the requirement that SGOs be located in the state.

January 1, 2027: Program starts, enabling taxpayers to contribute to SGOs for tax year 2027 and receive a tax credit when filing their taxes in 2028.

Date uncertain: Treasury announced in June 2026 that additional guidance on “the scope of eligible expenses” will come after the interim final rule is issued.

Date uncertain: Congress has the authority to amend or repeal the program.

Sources: IRS Notice 2025-70 (RFC); June 10 Treasury Preview Remarks; OMB Regulatory Agenda Notice

Program Mechanics

- States annually opt in or out.
- Dollar-for-dollar federal tax credit up to $1,700 for individual contributions to scholarship granting organizations (SGOs).
- Federal law sets core SGO criteria—not the state.
  - In June 2026, Treasury indicated states cannot impose substantive SGO-specific requirements more restrictive than OBBBA requirements for SGOs.

Source: June 10 Treasury Preview Remarks

Program Mechanics

- Individuals, not the state, decide which SGO(s) to contribute to.
- SGOs allocate scholarships (among those who applied) and decide the amounts.
  - In OBBBA, there is not a cap on scholarship amounts (e.g., one student could receive $1,000, another $40,000).

Source: Treasury ED Fact Sheet

SGO Requirements

- Must be a 501c3, nonprofit organization (cannot be a foundation)
- Must be located in the state where the SGO operates (Treasury may allow out-of-state/multi-state SGOs)
- 90% of SGO funds must be used to award 10 or more K–12 students scholarships, at least 2 of whom must attend different schools.

SGO Requirements

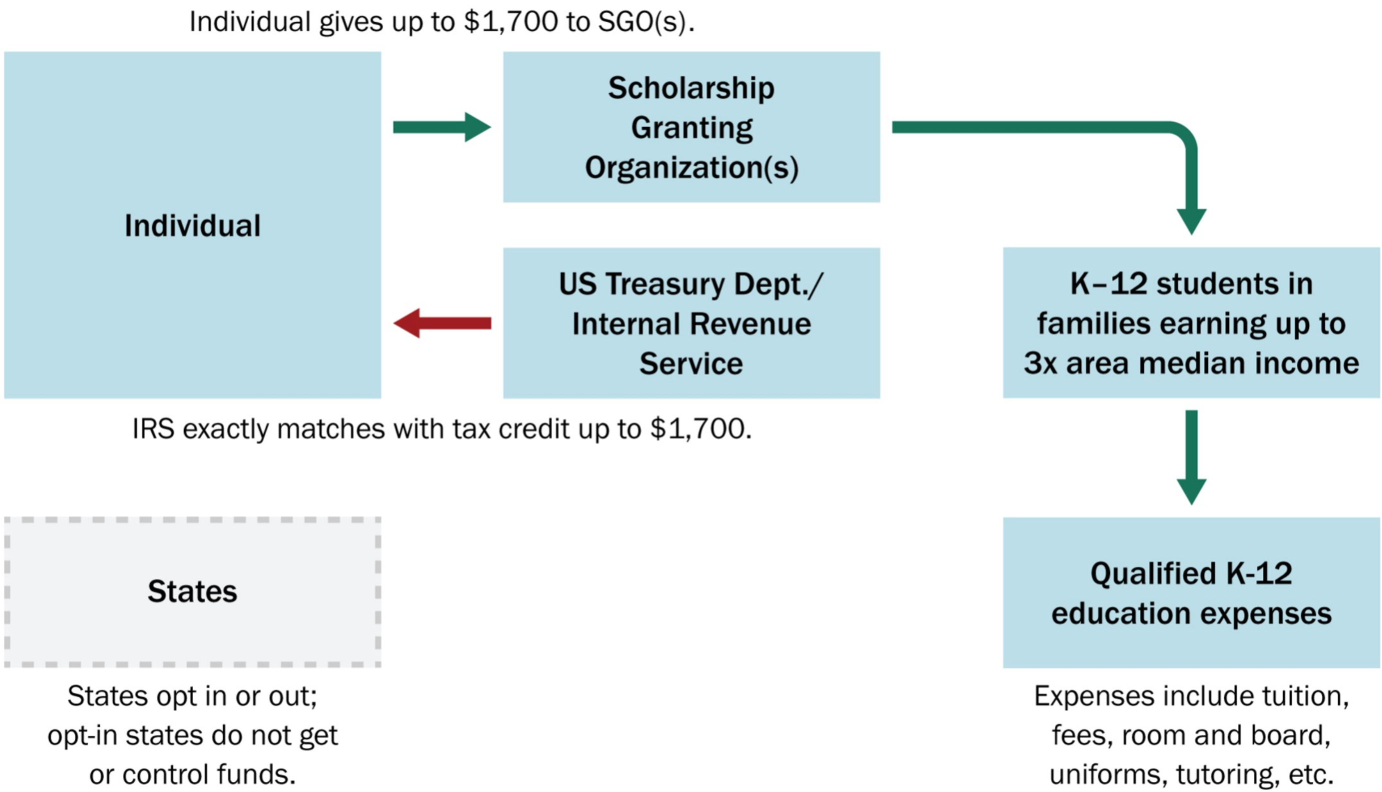
- Must prioritize previous-year recipients and siblings of recipients
- Must only award scholarships to students whose families earn no more than 3 times the area median gross income (AMGI) (~90% of families)

For example, for a family of four, the AMGI is…

- $133,200 in Greene County, Alabama
- $332,100 in Marion County, Indiana
- $557,100 in Marin County, California

Sources: Fiscal Year 2025 U.S. HUD: Multifamily Tax Subsidy Projects Income Limits; Urban Institute, Blagg, September 2025

Funding Mechanism and Flow



Allowable Expenses and Use

- Scholarships can pay for expenses connected to enrollment in K–12 schools, including tuition, fees, room and board, transportation, uniforms, books, supplies, supplementary items, technology, special needs services, tutoring, and extended day programs.
- School districts and their public schools cannot be direct recipients of SGO funds.
  - These entities would have to form SGOs that would presumably award funding to their *students* (not their *public schools*).
  - It is not known whether SGOs will be able to restrict scholarships to certain students (e.g., only students in a school district) and to select expenses.

Sources: P.L. 119-21; Section 530(b)(3)(A) of the IRS Code of 1986

What Is Known and Unknown Regarding State Authority and Might Be Subject to Regulation

Where States Have Authority

- Annually whether to opt in or out of the program
- To designate an entity responsible for administrative coordination (e.g., sending the list of SGOs to Treasury)

Where States Do Not Have Authority

"States may not impose substantive SGO-specific requirements that are more restrictive than section 25F's (OBBBA's) requirements."

— Remarks delivered by Deputy Assistant U.S. Treasury Secretary for Tax Policy Kevin Salinger, June 9, 2026

Source: June 10 Treasury Preview Remarks

What Is Unknown About State Authority and May Be Subject to Regulation

- How *substantive SGO-specific requirements that are more restrictive than OBBBA's requirements* are defined in the regulation
  - This may impact whether a state can:
    - Interpret certain allowable uses of scholarship funds based on the statutory language (e.g., limit to select uses and/or expand to uses not explicitly named in the law, regulations, or guidance)
    - Select, limit, or cap the number of SGOs operating in the state

What Is Unknown About State Authority and May Be Subject to Regulation

- Any additional requirements on SGOs, such as:
  - Individual scholarship amounts or caps
  - Prioritization or targeting of scholarship recipients
  - Fiscal and academic reporting, transparency, and accountability requirements, including:
    - Which students received funds and how much they received
    - How the funds were used
    - Outcomes/program quality, such as academic achievement
    - Required corrective actions

What Is Unknown About State Authority and May Be Subject to Regulation

- Civil rights protections on SGOs and educational entities receiving funds
  - Access, services, and nondiscrimination requirements (e.g., students with disabilities, English learners, LGBTQ+, immigrant students, etc.)

Available Funding, Beneficiaries, and Cost to States Are Unknown

How Much Funding Will Flow?

- New and novel federal tax provision makes the amount unknown.
- Congressional estimate is $26 billion over 10 years.
- Year 1 estimate is ~$500 million.
- Contributions may vary from year to year, which could impact funding.

Source: U.S. Congress Joint Committee on Taxation

Which Students Will Benefit?

How much will go to:

- Private (nonsectarian), religious school, home school, and/or public school students?
- High-income, moderate-income, and/or low-income students?

Significant questions remain regarding whether and how scholarships could be used by public school students at public schools (e.g., for tutoring or extended day programs).

What Are the Potential Costs for States?

- State implementation (e.g., one state allocated $2 million for implementation in their latest budget)
- State administration
- Shifts in enrollment that may impact funding for public schools

Source: Florida fiscal year 2026–27 budget