

Federal Scholarship Tax Credit

Launching **January 1, 2027**, this program creates a nationwide mechanism for funding K–12 education through tax-advantaged charitable giving. It relies on privately directed donations incentivized through federal tax credits and administered by nonprofit scholarship-granting organizations (SGOs).

How it Works

Funding

- Individuals may donate to SGOs in any state and receive up to \$1,700 annually in dollar-for-dollar federal tax credits
- No cap on total contributions, meaning overall funding is effectively uncapped
- The \$1,700 credit cap is projected to keep the program's 10-year cost below \$26 billion

Student Eligibility

- Families earning up to 300% of county median income qualify for scholarships (~90% of U.S. families)
 - Thresholds are high in some areas (e.g., ~\$456,000 in Montgomery County, MD)
- Applies to students in public, charter, private, and homeschool settings

Uses of Funds

- Scholarships may be used for education expenses aligned with federal Coverdell ESA rules (e.g., tuition, tutoring, materials, transportation, technology)
- Scholarships are not taxable income

States

- Must opt in and publish an annual list of eligible SGOs (by the governor or designated entity)

SGOs

- Must be 501(c)(3) and not private foundations
- Receive donations and distribute scholarships
- Set scholarship amounts and distribution criteria (within federal parameters)
- Determine eligible providers and services
- Must spend at least 90% of funds on scholarships
- Cannot earmark funds for specific students
- Must serve at least 10 students across multiple schools
- Prioritize returning recipients and siblings
- Must verify income and eligibility annually and cannot award funds to disqualified persons (e.g., insiders)
- Must use funds for scholarships within the state in which the SGO is listed

What's Next

The U.S. Treasury will issue draft and final regulations ahead of the 2027 launch, shaping program oversight and administration. More states may opt in.

Key Issues Under Treasury Review

- How states will certify that SGOs meet federal requirements and ensure certifications are accurate and complete
- How rules apply to single-state vs. multi-state SGOs
- How "income" is defined for the 90% requirement
- What SGOs must report and what records are required to verify donor and student eligibility

Participating States (as of 5/30/2026)

Alabama (R)	Nevada (R)
Alaska (R)	New Hampshire (R)
Arkansas (R)	<i>New York (D)*</i>
Colorado (D)	<i>North Carolina (D)*</i>
Florida (R)	North Dakota (R)
Georgia (R)	Ohio (R)
Idaho (R)	Oklahoma (R)
Indiana (R)	South Carolina (R)
Iowa (R)	South Dakota (R)
<i>Kansas (D)*</i>	Tennessee (R)
<i>Kentucky (D)*</i>	Texas (R)
Louisiana (R)	Utah (R)
Mississippi (R)	Virginia (D)*
Missouri (R)	West Virginia (R)
Montana (R)	Wyoming (R)
Nebraska (R)	

**Kansas and Kentucky enacted opt-in legislation through legislative veto overrides. New York and North Carolina have indicated their intent to opt in. Virginia opted in under an outgoing Republican governor.*

➔ [See FutureEd's work on school choice](#)

