Federal Scholarship Tax Credit Playbook for Public and Charter Schools

Background on the Federal Scholarship Tax Credit Program.

In July 2025, Congress created a new **Federal Tax Credit Scholarship** program for K-12 public, charter, and nonpublic school students. This program gives a **federal tax credit** for **donating to a Scholarship Granting Organization (SGO)**. Each taxpayer can donate **up to $1,700 per year** (or $3,400 for joint filers) and get an equal amount off their federal tax bill.

SGOs use these donations to award scholarships to students who:

- **Attend a K-12 school** (public, charter, or nonpublic school).
- Have a **family income under 300% of their local Area Median Income** (adjusted for family size); and
- Live **in a state that has opted in** to the program.

Any K-12 student can receive a scholarship if they meet the requirements. Students with no tuition costs – such as those in public and charter schools – can still use scholarships for **a range of education expenses**, including: books, uniforms, tutoring, special needs services, bussing, computers, Internet, afterschool programs, and fees.

Crucially, **states must opt into the program** before their residents can receive scholarships.

SGO Basics.

An SGO simply needs to be a nonprofit organization that spends at least 90% of its revenues on scholarships to 10 or more eligible students attending two or more schools. Any group can create their own SGO – whether a school district, Parent Teacher Association, or network of charter schools. And the group creating the SGO has broad discretion to:

- **Choose which students gets scholarships**, within the statutory income limit of 300% of Area Media Income (about $310,000 nationwide, with significant local variation)
- **Set the scholarships amount** for each student
- **Choose the educational services** that scholarships can be spent on
- **Limit spending to approved vendors** – for example, programs operated by the public or charter school itself

Official proposed guidance from the IRS is clear that there are almost no limits how SGOs prioritize awards or choose what types of educational expense are covered. Thus, public and charter schools can use the program to raise millions of additional dollars and allocate them **equitably** to **their own students** to promote **priority educational needs**.

How It Would Work – An Illustrative Example.

Springfield School District, a fictional district of 10,000 K-12 students across 5 schools, wants to take advantage of the new tax credit scholarship program. They have identified **extended day programs** as the area they want to invest in. To do so, they:

1. **Establish a new 501(c)(3) nonprofit organization** as a dedicated SGO for Springfield public school students. The board members of the new SGO are the same as the district's board.
2. **Apply to their state government to become an approved SGO** in their state. They must submit documentation demonstrating that they meet the federal statutory requirements.
3. **Wait – or directly advocate – for their governor to opt into the program** by submitting a list of approved SGOs (including the Springfield School District SGO) to the IRS.
4. **Begin fundraising from their parent and donor base** – seeking a maximum donation from as many families as possible. (These donors will get the money back when they file their federal taxes.) Ultimately, they raise $9 million in scholarship funds.
5. **Establish extended day programs** in all their schools costing $1,000 per student per year.
6. **Invite all enrolled students to apply for extended day program scholarships**. After review, 9,000 students that qualify are notified of a $1,000 scholarship award. The SGO only allows parents to spend their scholarships on the extended day program at a Springfield public school.
7. **Tell parents to spend their $1,000 scholarships** to Springfield School District (or a third party operator) to cover the cost of the extended day program.
8. **Optionally, provide supplemental scholarships** from non-tax credit sources (e.g. local tax dollars) to students who don't meet the FTCS income guidelines.

In this example, Springfield School District has used federal tax credit dollars to offer a free, new educational program for all its students – at no cost to the school, parents, or donors. As an alternative model, a governor could establish a statewide SGO to maximize donations and equity.

What Else Can Scholarships be Spent On?

This playbook could be applied to a range of other paid educational goods and services that public and charter schools can offer, including:

- **Early Drop-Off, Late-Pickup**, and **Afterschool Enrichment Programs**
- **Tutoring and Test Prep**, including both small group and one-on-one settings
- **Bussing** and **Transportation**
- **Computers**, **Educational Technology,** and **School Uniforms**
- **Supplemental special needs services** beyond those provided during the school day

The Bottom Line.

A public or charter school system operating its own SGO can use the FTCS program to create a new, permanent revenue stream for high-impact programming beyond the normal school day.

How Much of the Federal Money Will Go to Public Schools?

Arizona has a closely analogous tax credit program compared to the federal scholarship tax credit program. They have one tax credit for donations to scholarships for public school students (the Public School Tax Credit program) and another for donations to scholarships for nonpublic schools students (the Original Individual Income Tax Credit program).

In the most recent year data is available (2024), 188,787 taxpayers donated to the public school scholarship program and 75,722 taxpayers donated to the nonpublic school scholarship program. Thus, when you have a fully unrestricted tax credit program that can be directed to either public or nonpublic school students **for every 1 taxpayer who directs their donation to nonpublic school students scholarships** there will be **2.5 taxpayers who direct their donation to public school students scholarships**.

If that same **1:2.5 ratio** holds true in the federal scholarship tax credit program, then of the $6.2 billion annually that Democrats for Education Reform projects will be available in California **about $4.4 billion will be directed to public school students**. For reference, that's more all the Title I ($2.6B), Title II ($230M), Title III ($145M), and Title IV ($327M) federal education funding allocated to California in 2026-2027 federal budget.

And that's if only ~30% of taxpayers participate, as the Democrats for Education Reform projections suggest. **The actual scholarship amount could easily go higher** – for example if the governor takes steps to encourage taxpayers to participate in the program (e.g. adding a donation option to the state income tax form) and if unions promote participation (e.g. by establishing their own SGOs and encouraging members to donate).

Impact on Federal Education Funding.

The scholarships are funded indirectly through federal income tax credits – completely **independent of existing federal education programs**. While all tax credits reduce overall federal revenues, **major K-12 education programs like IDEA and Title funding were maintained in recent Federal budgets** and are widely supported by the electorate.

If the overall federal budget were to contract – which has never happened regardless of which party controls Washington - **K-12 education funding represents only 4% of federal discretionary spending**. Even that small figure represents only 10% of overall K-12 education spending in the country (with 45% coming from state source and 45% from local sources). The fiscal impact

Perhaps most importantly, if a state chooses not to opt in, its **residents may still donate to SGOs operating in other states**. Thus the question facing states today isn't whether the federal tax credits will be claimed by their residents – but whether the benefits of those tax credits will flow to students within their state, or to students in other states.