

Federal Tax Credit Scholarship Program FAQ



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General Questions.



1. How does the Tax Credit Scholarship Program work?

Under this program, a taxpayer can direct a portion of their tax dollars to a Scholarship Granting Organization of their choice. They donate to a Scholarship Granting Organization and can reduce their federal tax bill by 100% of the amount they donated – up to \$1,700 per taxpayer.

The Scholarship Granting Organizations use the money to give scholarships to eligible students.

2. Who can receive a scholarship?

Any student who meets all three of following requirements:

- Their family income is under 300% of the median income for their region
- They are enrolled in grades K-12 in either a public or nonpublic school
- They live in a state that has opted into the federal program

3. What can the scholarships be spent on?

A final list of eligible expenses will be put forth in IRS regulations. Tentatively, it appears that the federal scholarships could be spent on any education-related expense qualified under the Coverdell Education Savings Account program, including:

- Books, supplies, and equipment
- Academic tutoring
- School tuition
- Special needs services
- Room and board
- Uniforms
- Transportation
- Extended day programs
- Computer equipment and Internet

4. How does a state “opt in” to the program?

We need to wait for program regulations from the IRS for exact details. The law says that every year, by January 1st, the state must send a letter to the federal government listing the Scholarship Granting Organizations allowed to operate in their borders for the coming year.

The letter must be sent by the governor or by another agency/official assigned by state law.

5. How much money is available each year?

There is no overall program funding cap – but each taxpayer can only receive a tax credit of up to \$1,700 per year.

6. When will this be up and running?

The law takes effect in January 2027. Scholarship Granting Organizations can start opening up immediately. Donors can start donating to Scholarship Granting Organizations in January 2027. We expect the first scholarships go out for the 2027-2028 school year.



Questions for Families.

7. How do I apply for a scholarship?

If your state opts into the program, then by early 2027 your state will have a publicly available list of participating Scholarship Granting Organizations. You will apply directly to them.

Some Scholarship Granting Organizations may allow donors to earmark funds for students in specific schools. In such a case, your school will inform you which Scholarship Granting Organization has these earmarked funds.

8. Can I get scholarships from multiple Scholarship Granting Organizations?

Yes – and you can get a scholarship from both the federal tax credit scholarship program and a state one.

Depending on the final program regulations from the IRS, Scholarship Granting Organizations may be able to limit their awards to students who are not already receiving a scholarship from elsewhere – if they wish to do so.

9. What exactly is the income limit for scholarship recipients?

It is three times the Area Median Income the region where you live, as published by the Housing and Urban Development federal agency. You can use the [Fannie Mae AMI Lookup Tool](#) to see what your Area Median Income is.

10. What if my child is in a public or charter school?

Any K-12 student can receive a scholarship as long as they meet the income requirements and live in a state that has opted in.

While public and charter schools do not charge tuition, students in these schools can still use scholarships for a range of other educational expenses, including books, uniforms, tutoring, special needs services, transportation, computer equipment and Internet, afterschool programs, and other school fees.

11. What if my child is in Preschool or College?

The federal tax credit scholarship program is limited to students enrolled in K-12 public or nonpublic schools – preschoolers and college students are not eligible.

12. What if my child is homeschooled?

The law limits scholarships to students attending a K-12 school. Advance guidance from the IRS has indicated that each state will decide whether homeschooling counts as being enrolled in a “school.”

13. What if my state government does not opt into the program?

Your state must opt into the program before a Scholarship Granting Organization can grant your family a scholarship. Every family should advocate with their elected officials to ensure that their state opts into the program.

If your state does not opt in, then you cannot receive a scholarship. However, you can still donate to a Scholarship Granting Organization in another state that opted in.

14. What if a student lives in one state, but attends school in another?

The law does not specify how to determine which state a student is “located in.” We need to wait for program regulations from the IRS to definitively answer this question.

15. Who decides how scholarships are awarded?

Scholarship Granting Organizations themselves decide which eligible students receive scholarships and how large the scholarships are.

The law does require Scholarship Granting Organizations to give priority when awarding scholarships to students who received a scholarship in the prior year and their siblings.

16. Do I have to spend my scholarship on tuition?

No. Under the law, there are a range of eligible expenses that scholarships may be spent on – not just tuition, but also textbooks, tutoring, transportation, and others (*see question above, “What can the scholarships be spent on?”*).

The law does not specify whether a Scholarship Granting Organization can limit which of the eligible expenses their scholarships will be spent on. We need to wait for program regulations from the IRS for clarification on this point.

17. How exactly does spending scholarship money work?

Broadly speaking, the families will inform the SGO what they want to spend money on, the SGO will ensure that it’s a qualified education expense, and then the SGO pays out the money on behalf of the family.



In practice, most SGOs in states with existing Education Savings Account programs use a technology vendor such as ClassWallet to give parents online access to a special savings account that they can directly spend money from – without a lengthy paperwork process.

Some SGOs also permit reimbursement upon submission of proof that eligible expenses were incurred. Final regulations are needed to confirm whether this practice is allowable under the federal program.

Questions for Donors.

18. How does a tax credit work?

Under the program, for each dollar you donate to a Scholarship Granting Organization you can deduct one dollar from your federal tax bill – up to \$1,700 per year.

19. I file jointly with my wife. Can we claim a \$3,400 tax credit together?

We need to wait for program regulations from the IRS to be certain. However, a simple reading of the bill seems to suggest that a married couple filing jointly could only receive a tax credit up to \$1,700, as they are considered a single “taxpayer” when filing jointly.

If they are married filing separately, then each could claim up to \$1,700.

20. What is the difference between a tax credit and a deduction?

Tax credits directly reduce the amount of taxes you owe. Tax deductions only reduce your taxable income.

21. What if my tax bill is lower than \$1,700 per year?

Any unused portion of the tax credit can be carried forward and applied to future tax bills, for up to five years.

For example, if your annual tax bill is \$600, then you can donate \$1,700 to a Scholarship Granting Organization in 2027, and pay no taxes for 2027, no taxes for 2028, and just \$100 in taxes for 2029.

22. What if I have no tax liability or get a tax refund each year?

You cannot benefit from this tax credit if you pay no federal taxes.

23. Can I get a credit and a deduction on the same donation?



No. If you receive a tax credit for donating to a Scholarship Granting Organization, you cannot also claim a state or federal tax benefit on the same donation.

24. Can I donate to a state-run tax credit scholarship program if I donate to the federal one?

Yes, but you need to make two separate donations – one to each program. You cannot claim both a federal tax credit and a state tax credit for the same donation.

25. Can I donate to a Scholarship Granting Organization in another state?

Yes, there are no restrictions against donating across state lines.

26. Can I donate to a Scholarship Granting Organization in a state that has not opted into the program?

No, you can only donate to a Scholarship Granting Organization located in a state that opted into the program. It doesn't matter whether the state where you live has opted in – it only matters whether the state where the Scholarship Granting Organization is located has opted in.

27. Can I get a tax credit for a donation of stock or from my Donor Advised Fund?

No. You need to make a cash donation from your personal funds, and you cannot claim a double tax benefit for your donation.

28. I have a Donor Advised Fund. If I donate from there, can I get a tax credit?

No. You need to make a cash donation from your personal funds, and you cannot claim a double tax benefit for your donation. Since you already claimed a deduction for your initial contribution to the Donor Advised Fund, and since the money is no longer yours after you contributed it, a donation from a Donor Advised Fund to a Scholarship Granting Organization would not generate a tax credit.

29. Can I earmark my donation for students in a specific school?

Yes, assuming the Scholarship Granting Organization you are donating to permits this. It is up to each Scholarship Granting Organization whether they want to let donors earmark their funds for students in particular schools.

30. Can I earmark my donation for a specific student?



No. The law expressly forbids this practice.

31. Can I get something in return for donating to a Scholarship Granting Organization?

No. To be considered a voluntary donation, you cannot receive a material benefit – or “quid pro quo” – in return for contributing.

The only benefit you may receive for a donation to a Scholarship Granting Organization is the 100% federal tax credit for each dollar donated.

32. Do I need to be a parent in order to donate?

No. Any taxpayer can donate to a Scholarship Granting Organization and get a tax credit.

33. Can a donor to a Scholarship Granting Organization also receive a scholarship from them?

Yes, except in rare cases. If a donor gives more than \$5,000 to an SGO in a single year AND their donation is 2% or more of the SGO’s gross revenues, then they possibly could not receive a scholarship from that particular SGO. But if a donor keeps their donation to \$1,700 or make sure they are donating to a large SGO, then this will not be problem.

34. When will I receive my tax credit?

When you file your taxes for the calendar year when you made the donation.

35. Can I donate more than \$1,700 to a Scholarship Granting Organization.

Yes. You will receive a tax credit for the first \$1,700, and a tax deduction for the remainder of your donation.

Questions for Scholarship Granting Organizations.

36. What are all the requirements for a Scholarship Granting Organization (SGO)?

Here is a full list of all the requirements in law for a Scholarship Granting Organization:

Operational Requirements:

1. 25F(c)(5)(A)(i) – An SGO must be a tax-exempt 501(c)(3) nonprofit.
2. 25F(c)(5)(A)(ii) – An SGO cannot be a private foundation.
3. 25F(c)(5)(B) – An SGO must keep all tax credited donations separate and trackable from other funds.
4. 25F(c)(5)(D) - An SGO must be included on the state's list of approved SGOs for the year in question.
5. 25F(d)(1)(B) - An SGO must spend at least 90% of its income on scholarships for eligible students.

Scholarship Granting Requirements:

6. 25F(c)(3) - An SGO must use tax credited contributions on scholarships for eligible students in the state where the organization is listed as an SGO.
7. 25F(d)(1)(A) - An SGO must provide scholarships to at least 10 students who do not all attend the same school.
8. 25F(d)(1)(C) - An SGO may only provide scholarships for qualified elementary and secondary education expenses.
9. 25F(d)(1)(D) – An SGO awarding scholarships must first prioritize students who received a scholarship in the prior year, and then to siblings of students who receive a scholarship.
10. 25F(d)(1)(E) - An SGO cannot let donors earmark their donations to benefit a particular student.
11. 25F(d)(1)(F) - An SGO must verify the household income and family size of scholarship applicants, and only award scholarships to students meeting the income requirements.
12. 25F(d)(2) - An SGO cannot award scholarships to [Disqualified Persons](#), including Substantial Donors (who give over \$5,000 or 2% of receipts in one year) or their family members.

37. Can an SGO be an existing nonprofit?

Advance guidance from the IRS appears to allow existing nonprofits to become federal SGOs if their primary purpose is providing education scholarships.



Existing nonprofits whose primary purpose is not awarding scholarships could not become an SGO under the new federal program.

38. Can a school become an SGO?

No. The law requires that at least 90% of an SGO's revenues must be spent on scholarships – and no school meets this requirement.

39. Can a school start an SGO?

Yes, provided the new SGO is a separate organization that provides scholarships to at least 10 students attending at least two different schools.

In practice, the overhead and compliance costs of operating an SGO may prove uneconomical for most schools. A school can explore partnering with a third-party SGO – particularly one that lets the school's donors earmark their funds for students attending their specific school.

40. Can a single SGO operate in more than one state?

Advance guidance from the IRS indicates that SGOs will be permitted to operate in multiple states. However, they will need to separately apply and qualify in each state in order to get onto that state's list of qualified SGOs, and maintain a separate bank account for tax credited donations in each state.

41. Does an SGO need to spend 90% of all income on scholarships, or just 90% of tax credit donation income?

The law says that an SGO must “spend not less than 90 percent of the income of the organization on scholarships for eligible students.” Advance guidance from the IRS suggests that for organizations whose primary mission is awarding scholarships, this 90% rule could be applied only to a “safe harbor” bank account where all tax credited donations are kept.

The “safe harbor” rule would not apply for organizations whose primary mission is not awarding education scholarships.

42. How do we decide who gets scholarships, and how much?

The law appears to give Scholarship Granting Organizations broad discretion as to which eligible students receive scholarships and how large the scholarships are.



The law does require Scholarship Granting Organizations to give priority when awarding scholarships to students who received a scholarship in the prior year and their siblings. The exact meaning of this provision must be clarified in final IRS regulations.

43. Do we need to let donors earmark their donations?

Each SGO will decide whether it lets donors earmark their donations for students attending specific schools.

An SGO may not let donors earmark donations for particular students.

44. How does it work if we let donors earmark donations for specific schools?

We anticipate that SGOs will maintain several “pots” of funds – a separate “pot” for each school that received designated donations, as well as “general pot” for un-designated donations.

The SGOs would ask scholarship applicants to indicate which school they plan to attend in the coming year. For each school with a “pot,” the SGO would allocate that school’s “pot” among applicants from that school. Then the SGO would make awards from its “general pot” as well.

Separately, the SGO would need to decide how scholarships are prioritized and sized within each pot – with the caveat that priority must be given to students who receive scholarships in prior years and their siblings.

45. Can we restrict the eligible expenses families can spend their scholarships on?

Possibly. Final program regulations from the IRS are needed to clarify whether a school can limit which types of eligible expenses they will cover.

46. Who will be regulating SGOs – the feds or the states?

States will be in charge of reviewing SGOs eligibility under and compliance with the federal SGO requirements. Advance guidance from the IRS indicates that states will NOT be allowed to add additional requirements or restrictions on SGOs beyond those enumerated in federal law.

States will also have a role in fraud prevention and compliance checking, although final guidance from the IRS is needed to clarify the exact role of states.

47. Can an SGO place participation requirements on schools?

The law does not limit an SGO's ability to decide which eligible students receive scholarships – or whether students from a specific school can receive scholarships.

Unless there are program regulations from the IRS to the contrary, an SGO could probably place participation requirements on schools – such as capping tuition increases.

Questions for Schools.

48. What are all the requirements for a school to participate?

There are no requirements for schools – scholarship recipients can spend their scholarships on tuition at any K-12 school in the country.

49. Can I require parents to spend their scholarships on tuition?

There is no mechanism in the law for schools to be aware that a family received a scholarship, or to require parents to spend their scholarships on tuition (as opposed to other eligible expenses such as textbook, tutoring, and bussing).