SCHOOL + STATE FINANCE PROJECT

FAQs: Federal Scholarship Tax Credit Program

November 6, 2026

On July 3, 2025, the 119th U.S. Congress passed H.R. 1, commonly known as the One Big Beautiful Bill Act,[1] which was subsequently signed into law the following day by President Donald Trump. Contained in H.R. 1 is a new federal scholarship tax credit program designed to support school choice initiatives and students with education-related expenses.

On October 1, 2026, the U.S. Department of the Treasury (Treasury) and the Internal Revenue Service (IRS) issued proposed regulations to implement the program. ***The proposed regulations are not yet law and remain subject to change***. They are open to public comment until December 1, 2026 and are scheduled to be discussed at a public hearing on December 15, 2026.[A]

This document addresses key questions about how the new program might work, who would be eligible, and what it could mean for Connecticut's students, schools, communities, and residents.

Overview

What is the federal scholarship tax credit program?

H.R. 1 (2025) established a new tax credit scholarship program (commonly referred to as the Education Freedom Tax Credit program or the Section 25F Federal Tax Credit program) that is primarily intended to assist K-12 students with the cost of attending private schools but also includes additional types of educational expenses. Participation is left to each state's discretion. The program allows individuals and organizations to contribute up to $1,700[B] to approved scholarship granting organizations (SGOs), with donors receiving a dollar-for-dollar credit against their federal tax liability.

What is a scholarship granting organization (SGO)?

Scholarship funds will be managed by SGOs, defined under H.R. 1 as tax-exempt 501(c)(3) organizations, which include educational nonprofits, universities, and churches. SGOs will send donated funds to families to be used for eligible educational expenses. SGOs may retain up to 10% of the income from the scholarship funds to cover their administrative costs.[C]

[A] For more information about submitting public comment on the proposed regulations, please see https://www.regulations.gov/document/IRS-2026-1354-0001.

[B] Under the proposed regulations, the Treasury clarifies that a married couple filing jointly would be able to contribute up to $3,400.

[C] Prop. Treas. Reg. § 1.25F-3(c)(2) proposes a safe harbor provision for single-state SGOs. If 85% of their total activities are dedicated to scholarship granting work, they can choose to apply the "90% rule" only to a designated Section 25F account, not the whole organization. All reporting and oversight requirements would still apply to the organization, but only to the 25F account. This provision would allow school district foundations and large multi-purpose nonprofits to become SGOs more easily.

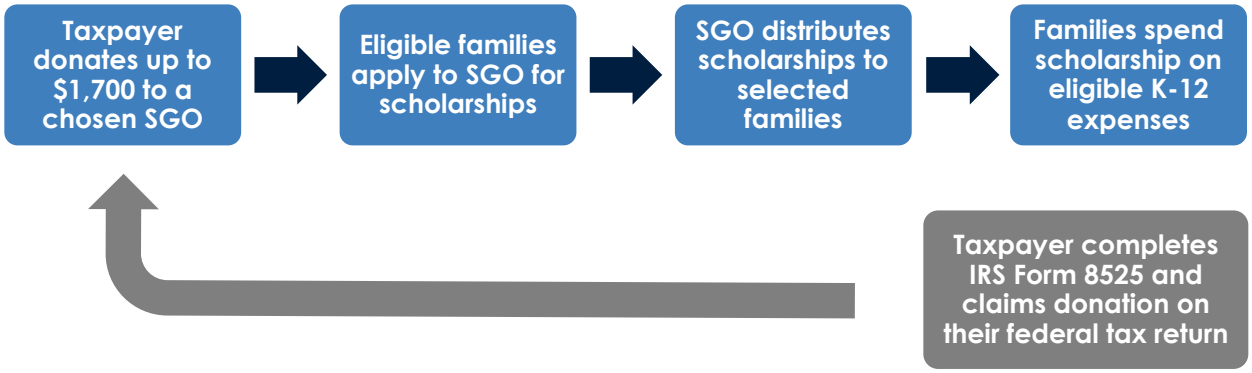
The proposed regulations specify that SGOs would not need to be headquartered or physically located within a participating state to disperse scholarship funds to resident students, but they would need to be authorized to do business there. This would allow multi-state SGOs to participate in the program.[D]

The Treasury's proposed regulations would prevent states from establishing additional criteria or requirements for SGOs to operate in their state[E] beyond those outlined in Section 25F(d).[F] This means ***states would not be able to deny approval for SGOs that may not represent the educational priorities of the state's leadership***.

How is this tax credit different from a tax deduction?

By classifying donations as a tax credit under this program, donations directly reduce the amount of federal income tax owed by the donating taxpayer rather than simply lowering their taxable income as a deduction would. For example, if a taxpayer owes $10,000 in federal income taxes and donates $1,700 to an SGO, their tax bill would be reduced to $8,300. This structure makes the program one of the most generous federal tax incentives available, as no other charitable giving program allows contributors to be reimbursed for their full donation amount.[2] The figure below indicates how funds would flow through the program and how the tax credit would return to the donor.

Figure 1: Funding Flow of Tax Credit Scholarship Program



When does the tax credit scholarship program begin?

The program is scheduled to launch on January 1, 2027 and taxpayers will be able to make donations to SGOs starting in 2027. This means taxpayers can claim the credit on their 2027 tax year return (to be received in 2028).

[D] Prop. Treas. Reg. § 1.25F-1(a)(10)
[E] Prop. Treas. Reg. § 1.25F-5(e)
[F] H.R. 1 § 25F(d) requirements are that SGOs must: (1) provide scholarships to 10 or more students that do not all attend the same school,(2) spend no less than 90% of organization income on, (3) only provide scholarships for qualified expenses for eligible students, (4) prioritize scholarships for students who previously received one or have a sibling who received one, (5) not set aside any funds on behalf of a particular student, (6) verify the annual household income and family size of eligible students, and (7) not award scholarships to disqualified persons as defined in IRC section 4946.

Eligibility

Who is eligible to receive scholarship funds?

To be eligible to receive scholarship funds, students must reside in a participating state, be eligible to attend a public school, and come from households that earn less than 300% of their area's median income, with an additional multiplier that accounts for family size.[G] For each of Connecticut's nine Regional Councils of Governments (COGs), Table 1 below displays the maximum household income limits (based on the most recent available data from 2026) for students to be eligible for the federal tax credit scholarship.[H] It is important to note these limits will likely increase in 2027 as median household income rises.

Table 1: 2026 Income Limits for Federal Tax Credit Scholarship Eligibility[3]

Regional Council of Governments	Median Household Income	Income Limit: Family of 3 (*0.90)	Income Limit: Family of 4 (*1.00)	Income Limit: Family of 5 (*1.08)
Northwest Hills	$122,800	$331,560	$368,400	$397,872
Capitol Region	$129,200	$348,840	$387,600	$418,608
Northeastern	$126,500	$341,550	$379,500	$409,860
Western	$156,800	$423,360	$470,400	$508,032
Naugatuck Valley	$114,000	$307,800	$342,000	$369,360
Metropolitan	$156,800	$423,360	$470,400	$508,032
Southcentral	$123,200	$332,640	$369,600	$399,168
Lower CT River Valley	$129,200	$348,840	$387,600	$418,608
Southeastern	$111,900	$302,130	$335,700	$362,556

Priority for scholarships will be given to students who either received a scholarship in the previous year or have a sibling who received a scholarship. The Treasury's proposed regulations also provide that any student who resides in a participating state is eligible to receive scholarships, even if they attend school in a non-participating state. For example, if Connecticut does not opt in to the tax credit scholarship program, students who reside

[G] The Treasury's proposed regulations include a family size adjustment multiplier in the income limit eligibility requirements. This multiplier is 0.9 for a family of 3, 1.0 for a family of 4, 1.08 for a family of 5, and increases by 0.8 thereafter for additional family members. This multiplier would match family size adjustments used by the U.S. Department of Housing and Urban Development to calculate Section 8 housing income limits.

[H] Median household income data was retrieved from the most recent data (2026) from the U.S. Housing and Urban Development (HUD). For more information, please see https://www.huduser.gov/portal/datasets/il/il26/Medians-Methodology-FY26.pdf.

in New York (which has opted in), but attend school in Connecticut, would be eligible to receive scholarships and apply them to the educational expenses of their Connecticut-based school.[I]

Who is eligible to donate and claim the tax credit?

While SGOs may only operate in states that opt in to the program, residents of states that have opted not to participate in the program may still donate to SGOs operating in other states and receive the federal tax credit.

Additionally, although the tax credit is capped at $1,700 per taxpayer per tax year,[J] the Treasury's proposed regulations provide that donors can contribute more than $1,700, and their tax credit would roll over into subsequent tax years for up to five years. For example, if a taxpayer contributed $2,000 to an SGO in 2027, they could theoretically claim the maximum $1,700 tax credit on their 2027 tax year return and receive a $300 tax credit on their 2028 tax year return.

How much scholarship money could families receive?

Although the federal scholarship tax credit is capped at $1,700 per taxpayer, per year, neither H.R. 1 nor the Treasury's proposed regulations specify or limit how many scholarships, or how much scholarship funding, a single student or family may receive. The Treasury's proposed regulations also provide that eligible students can receive scholarships from multiple SGOs. Furthermore, since the Section 25F awards would be considered private scholarships, they will not impact eligibility for other sources of federal education funding or state-based private school choice scholarship programs. However, some states may choose to replace their existing private school voucher or tax credit scholarship programs with this federal option.

In theory, a family could receive a scholarship that covers the full cost of private school attendance. That said, Connecticut has the highest private school tuition in the nation, with many schools charging more than $70,000 annually — making it unlikely many students would receive scholarships sufficient to cover the full cost of annual tuition should Connecticut opt in to the program.[4]

What are eligible educational expenses?

While the federal scholarship tax credit program appears to be primarily aimed at helping families pursue private education, the broad language of H.R. 1 allows scholarship funds to cover a wide range of expenses related to private and public education. Eligible uses may include tuition, fees, tutoring, special education services, supplies, and other educational materials. Funds may be applied to private schools (including religious schools), other school choice options,[K] or even certain public school

[I] Prop. Treas. Reg. § 1.25F-3(c)(7)

[J] Or $3,400 for a married couple filing jointly, per the Treasury's proposed regulations.

[K] The eligibility of homeschool expenses depends on whether the state classifies homeschools as "schools" under state law. Connecticut does not consider homeschools as "schools" and would therefore not consider funds for homeschooling as eligible expenses, whether the state opts in to program or not.

programs.[5,L] It is worth noting that private schools are not obligated to accept the scholarships, as they retain the right to admit or reject students at their discretion.
It remains uncertain how public schools in states opting into the federal scholarship tax credit program will participate. Drawing on experiences from other programs in other states, public schools could choose to charge students receiving scholarships for services such as tutoring, extracurricular activities, or individual courses.[M] Some have also suggested scholarship funds could be used to support some expenses for public school students, such as transportation or supplies.[6]

However, the Treasury is currently drafting further guidance on what qualifies as an eligible expense and has stated this guidance will be announced as soon as possible.

How does a state opt in or out of the federal scholarship tax program?

In each state, the governor — or another entity designated under state law to make decisions about federal tax benefits — must determine whether to participate in the program. Participation is determined on a year-by-year basis and must be finalized by January 1 of each year. Currently, 32 states have opted in to the program for 2027, including New York and New Hampshire. Oregon, Minnesota, and Wisconsin have officially opted out, with 15 states and the District of Columbia still undecided.[7]

Accountability

How will student eligibility for the program be verified?

As the primary administrative entities of the program, SGOs must verify the income and eligibility of participating families. SGOs are also required to administer scholarships to at least 10 students who do not all attend the same school.[N] Additionally, funds may not be donated to an SGO to provide scholarships for specific individual students.[O]

How can SGOs ensure scholarship funds are being used appropriately?

The Treasury's proposed regulations include provisions allowing SGOs to utilize qualified third-party digital wallets. Through these online portals, SGOs could require families to submit purchase requests or receipts, pre-approve and pay education vendors directly, and track approved expenses.[P] However, at present, SGOs are not *required* to use digital wallets to track spending.

[L] While the U.S. Supreme Court has historically ruled the federal government cannot fund religious schools outright, this complex use of the tax code and SGOs allows money to be directed toward religious education in a way the Supreme Court has allowed. In a previous Supreme Court case, *Espinoza v. Montana Department of Revenue*, the Court ruled states could not exclude religious schools from participating in school voucher programs solely due to their religious affiliation. This indicates the Supreme Court is open to the funds through the federal scholarship tax credit program being directed toward religious private schools.

[M] In Illinois and Maine, private school students can apply to attend public schools part-time. In West Virginia, homeschool students may apply to attend public schools part-time, and in Idaho, charter school students can also enroll part-time at a public school. In Washington, any students can take individual courses at public schools. To read more about part-time public school enrollment, please visit https://excelined.org/wp-content/uploads/2021/06/ExcelinEd_PolicyAnalysis_PartTimeEnrollment_June2021.pdf.

[N] Prop. Treas. Reg. § 1.25F-3(c)(1)(1)

[O] Prop. Treas. Reg. § 1.25F-3(c)(1)(7)

[P] Prop. Treas. Reg. § 1.25F-3(c)(5)(v)

The proposed regulations from the Treasury also require SGOs to assign and provide each of their donors with a unique identification number with the written acknowledgement of their donation.[Q] Taxpayers would then be required to provide the identification number on their tax returns when claiming the federal scholarship tax credit.[R]

Will SGOs be regularly audited?

SGOs will be subject to additional federal regulations regarding verification procedures and reporting requirements. The Treasury's proposed regulations require each participating SGO to undergo an annual financial and programmatic audit conducted by a qualified, independent third party,[S] and provide the audit results to all states the SGO is operating in as part of the federal scholarship tax credit program.[T]

Implications

How much will the scholarships cost the federal government?

Although the federal scholarship tax credit program is not directly funded by the federal government, it will annually redirect billions of federal tax dollars to support a potentially small number of students.[U]

In August 2026, the Treasury and IRS issued preliminary estimates of the impacts of the program.[V] Based on the 30 states that had opted in to the program at the time, they estimated that by 2030, between 600 and 700 SGOs would be operating in those states, receiving a total of $26 billion in annual contributions. Those estimated funds could theoretically support 2 million "full time" annual scholarships (estimated by the federal government at $12,000 per student), or 5 million "part time" annual scholarships (estimated at $4,500 per student).

These estimates assume 11 million individual taxpayers would donate roughly $2,300 each — more than the annual maximum allowed tax credit — to an SGO. It is important to note these estimates are theoretical and dependent on several hypothetical conditions.

[Q] Prop. Treas. Reg. § 1.25F-4(c)(1)
[R] Prop. Treas. Reg. § 1.25F-2(g)(1)
[S] Under Prop. Treas. Reg. § 1.25F-4(e)(2), SGOs that receive less than $500,000 in annual receipts may be audited by a committee of independent individuals unrelated to the SGO's management, rather than a qualified auditor.
[T] Prop. Treas. Reg. § 1.25F-4(e)
[U] Previous versions of H.R. 1 capped this diversion at $5 billion annually, but the current program has no overall limit. For context, if the $5 billion cap had been maintained, and the program supports roughly one million students (as some estimates suggest), this would have translated to about $5,000 per student in the program.[U] This per-student amount is considerably higher than funding provided through other federal programs. For example, these conversative estimates are nearly three times the current level of per-student federal support provided under the Individuals with Disabilities Education Act (IDEA) and roughly eight times the level of per-student federal funding for students supported by Title I or the National School Lunch Program.
[V] These IRS estimates are based on several speculative metrics, including the estimated average number of SGOs operating at the state level in opt-in states, an assumed 10% donation take-up rate, and the average annual cost of attending one year of private school in opt-in states as of August 2026. For more information on the methodology, please visit https://www.federalregister.gov/d/2026-20277/p-244.

What are some potential positive outcomes for Connecticut students and communities if the State opts in to program?

If Connecticut opts in to the scholarship tax credit program, there could be significant impacts on students attending public schools. The full impacts, however, will depend on the educational priorities of SGOs and the number of taxpayers contributing to them.

For instance, should Connecticut opt in to the program, locally operational SGOs may choose to align themselves with state education goals become an effective source of support for Connecticut's highest-need student populations. Some SGOs may distribute funds specifically to low-income families, underserved communities or minoritized populations, or families with students with specific learning needs in a more direct and timely manner than government programs can. The program could also give families access to additional learning opportunities, extracurricular programs, and supplementary services (such as high-dosage tutoring), without the state or local school districts and municipalities having to incur the costs to fund them.

While there are ways scholarships provided under the program could benefit public school students and be applied to certain public school expenses, achieving this would likely require restructuring how public school services are offered to meet the program's eligibility requirements, which could be a complicated process.[8] Some schools are considering implementing fees for pre-existing or expanded programs and services, which may be a creative way for them to tap into scholarship funds. However, this raises significant legal, logistical, and ideological challenges for public schools, particularly whether the charging of fees for certain public education services is constitutional. Additionally, implementing fees may introduce or exacerbate income disparities in public schools, as well as open the door to penalties for families that fail to pay.[9]

What are some potential negative outcomes for Connecticut students and communities if the State opts in to program?

There are concerns that the federal scholarship tax credit program will primarily benefit and redistribute resources to affluent students, effectively subsidizing private school tuition for the wealthy. The program's 300% area median household income limit does little to direct funds toward low-income families, with over 90% of all students in the country qualifying to receive scholarship funds through the program.[10]

Furthermore, the bulk of charitable donations historically come from wealthy populations that tend to donate to causes or SGOs benefiting their own communities. The limited regulations proposed for SGOs have also fueled concerns about proper fiscal controls and accountability to prevent the potential waste or abuse of funds.[11]

Regardless of whether Connecticut opts in to the federal scholarship tax credit program, overall federal revenues to support services will decline as taxpayers across the country claim the credit on their federal tax returns, thereby reducing the income taxes they owe and lowering the potential pool of federal revenue available for services, including K-12 education. While federally funded grant programs, such as Title I and IDEA, are not yet directly impacted by the federal scholarship tax credit program, the potential reduction in federal revenue could impact federal education funding in future years.

Endnotes

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[6] Ibid.
[7] Stone, M., Schultz, B., & Liu, L. (2026, November 5). Federal School Choice: Which States Are Opting In? *Education Week*. https://www.edweek.org/policy-politics/federal-school-choice-which-states-are-opting-in/2025/08
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