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Federal Scholarship Tax Credit

Rulemaking Readiness Guide for Scholarship Granting Organizations

About This Guide

The Federal Scholarship Tax Credit (FSTC) represents a historic opportunity to expand access to K–12 educational choice. The statute establishes the foundation for a national scholarship framework, but implementation requires U.S. Department of the Treasury rulemaking to clarify critical operational details. This guide outlines what is fixed in law, what still requires federal clarity, and what SGOs can do now to prepare for a successful launch in 2027.

FACTS goal is to ensure the program is implemented in a way that is workable for SGOs, accessible for families, and aligned with legislative intent.

Federal Scholarship Tax Credit: What's Set in Law and What's Still in Rulemaking

Topic	Statutory Overview	Legislative Details	Why It Matters
Program Scope	Federal tax credit for donations to certified SGOs supporting K-12 scholarships.	Permanent, uncapped program—requires state opt-in and certified SGO participation.	Determines how SGOs qualify and remain eligible.
Donor Eligibility & Limits	Individuals may claim credits, subject to caps.	$1,700 nonrefundable annual credit (5-year carryover); scholarships must remain in-state.	Affects fundraising messaging and receipting.
Student Eligibility	HUD AMI-based eligibility thresholds.	Students eligible for public K–12 with household income below 300% of HUD AMI.	Drives application and review workflow.
Qualified Expenses	K-12 educational expenses may be funded.	Covers tuition, fees, materials, tutoring, technology, special services, activities, and transportation.	Influences disbursement rules and school guidance.
State Opt-In	States submit SGO lists annually.	Governor (or designee) must submit annual SGO list by January 1.	Ensures transparency, consistency, and continuity in participation.
Reporting & Records	Federal reporting and record keeping required.	Must follow IRS reporting, acknowledgment, and 90/10 expenditure requirements.	Ensure accountability, audit readiness, and uniform compliance across all participating SGOs.

Key Areas Awaiting Treasury Guidance

As Treasury develops regulations to implement the Federal Scholarship Tax Credit, several important details remain to be defined. The areas below have been identified as some of the most critical for SGOs to monitor because they will directly influence certification, donor management, and scholarship operations once final rules are released.

Qualified SGOs

- Whether states may impose restrictions beyond federal law
- Definition of "located in the state" for SGOs operating across multiple states
- Clarification of scholarship distribution.

Qualified Contributions

- How to coordinate federal credits with partial state tax credits
- Further define "cash" (ACH, credit cards, payroll deduction, wires, etc.)
- Treatment of joint filers to avoid a marriage penalty

90/10 Expenditure Rule

- Whether the 90% requirement applies only to FSTC-credited donations

Eligible Expenses

- Affirming religious-use eligibility consistent with statute and Coverdell standards

Eligible Students

- Confirming that "income" refers to HUD gross household income
- Verification standards and edge cases (pre-K, immigration, household definition)

IRS Administration

- IRS forms and process for non-itemizers to claim the credit
- Reporting schemas, data layouts, timelines, and enforcement structure

Rulemaking and Launch Timeline

Late 2025 - Early 2026

- Treasury issues preliminary guidance on state opt-in and SGO certification
- States begin internal opt-in decisions

Q1 2026

- Treasury releases draft regulations (NPRM) and opens public comment

Mid-2026 - Early Fall 2026

- Treasury reviews comments and finalizes regulations
- States finalize SGO lists and eligibility frameworks
- Potential opt-in deadline for governors to decide

Tax Year 2027 (Starting Jan 1, 2027)

- Treasury issues preliminary guidance on state opt-in and SGO certification
- States begin internal opt-in decisions

What SGOs Can Do Now to Prepare

Governance and Compliance

- [ ] Adopt written scholarship, documentation, and conflict-of-interest policies
- [ ] Establish internal controls and record retention standards
- [ ] Confirm board governance and audit procedures align with 501(c)(3) best practices
- [ ] Review donor acknowledgement language for compliance with IRS and state rules

Operations and Process

- [ ] Standardize donor receipting, school agreements, and award documentation
- [ ] Decide whether to use reimbursement or direct-to-school disbursement models
- [ ] Review staffing needs for application intake and donor relations
- [ ] Outline procedures for annual income verification and renewal priorities
- [ ] Connect with associations or coalitions that engage in state-level discussions about the opt-in process

Technology and Data

- [ ] Prepare systems for income and address verification and secure document intake (OCR or manual upload)
- [ ] Build reporting exports, role-based access controls, and audit trails
- [ ] Identify integration points between your donor, accounting, and scholarship systems
- [ ] Begin evaluating technology partners that can scale to federal reporting standards

Partner Resource Spotlight: Children's Scholarship Fund

Interested in building or expanding your SGO?

The *Children's Scholarship Fund Guide to Starting a Scholarship Granting Organization* offers a practical roadmap for mission development, compliance, and donor engagement, based on 25 years of experience in education funding.

Read more here.

Stay Engaged

Join the Rulemaking Coalition

Scan to connect with peers and policy partners helping shape federal implementation guidance. Add your voice to strengthen SGO representation throughout the rulemaking process.

Provide Your Input

Share your organization's feedback on anticipated operational challenges and opportunities before Treasury finalizes regulations. Your insight helps ensure the program works for all SGOs.

Explore FACTS SGO Solutions

As you prepare for federal implementation, FACTS offers technology and expertise designed to simplify scholarship administration.

Visit our **Application Builder page** to see how FACTS supports SGOs with unified application intake, eligibility verification, and award management tools.

Together, SGOs can help ensure the Federal Scholarship Tax Credit is implemented in a way that expands family access, maintains program integrity, and keeps administration manageable for mission-driven scholarship organizations.