



The Federal Scholarship Tax Credit

Key Opportunities and
Challenges

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Josh Cowen

Michigan State University

joshcowen.substack.com



Level-Setting: What is the Federal Tax Credit?



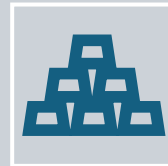
Adult donors give up to \$1700/year (\$65/paycheck) to a scholarship granting organization (SGO)



SGOs provide scholarships for tuition, tutoring, tech, educational services etc.



Public schoolers eligible for these expenses, and school districts are named providers under the law.



Treasury will release guidelines—but these can and will change.

Level-Setting: What is the Federal Tax Credit?

KEY POINT: ALL adults are already opted in. The only question for governors is whether to keep state donors giving to kids inside or outside their state.

- For this reason, most states have/will opted in.
- The parallel is Medicaid expansion under the ACA.

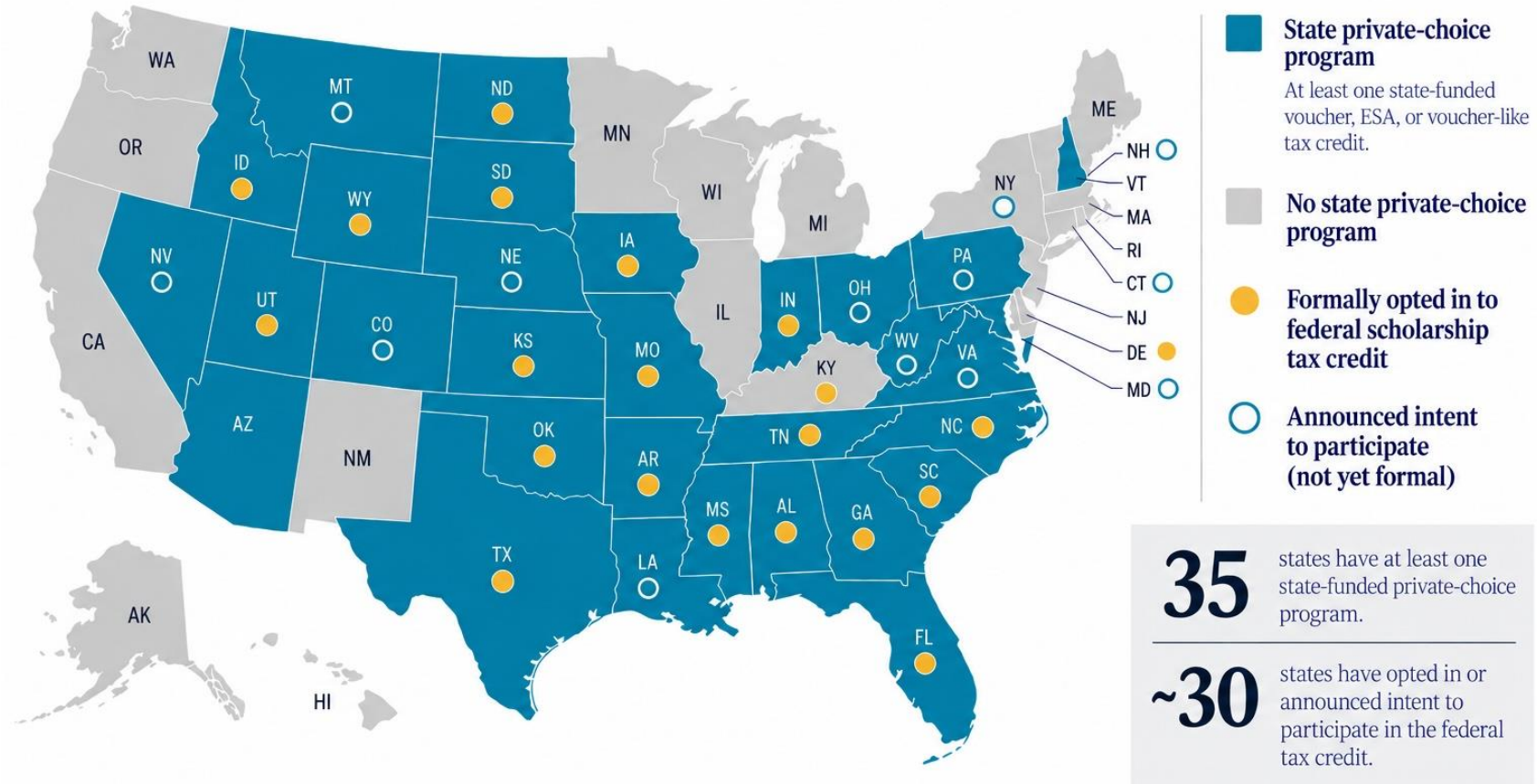
Level-Setting: What is the Federal Tax Credit?

KEY POINT: Unlike state school vouchers, the FSTC has no impact on state budgets.

- Most voucher users are already in private school.
- A larger % of private school students will benefit *but*
- A larger % of total beneficiaries will be public school students

October 2026 Opt-In Status

State private-choice programs and federal scholarship tax-credit participation (as of September 2026)



Level-Setting: Can Public School Kids Use?

- YES
- Clear opportunities for out-of-school time, tutoring, technology etc.
- There will be many SGOs for private and mixed delivery
- Many national public school allies are setting up public-facing SGOs

Level-Setting: Can Public *Districts* Use?

- YES—Treasury has reaffirmed, and created some process
- Many districts already operate 501(c)(3) foundations
 - They'll need a federal account
- Potential revenue stream, inside or outside Coverdell
 - Another Treasury ?
- This will be a very important place to engage state legislatures to define/redefine “provided” and “required.”

Challenges: Wild West of SGOs



Unlikely states will be able to regulate SGOs beyond statute



This means proactive, forward-facing partnership/pulpit activities will be key



Press governors to promote and partner with SGOs that serve and align with public school values



District leaders will have to be aggressive for revenue streams

Public School Communities and Allies



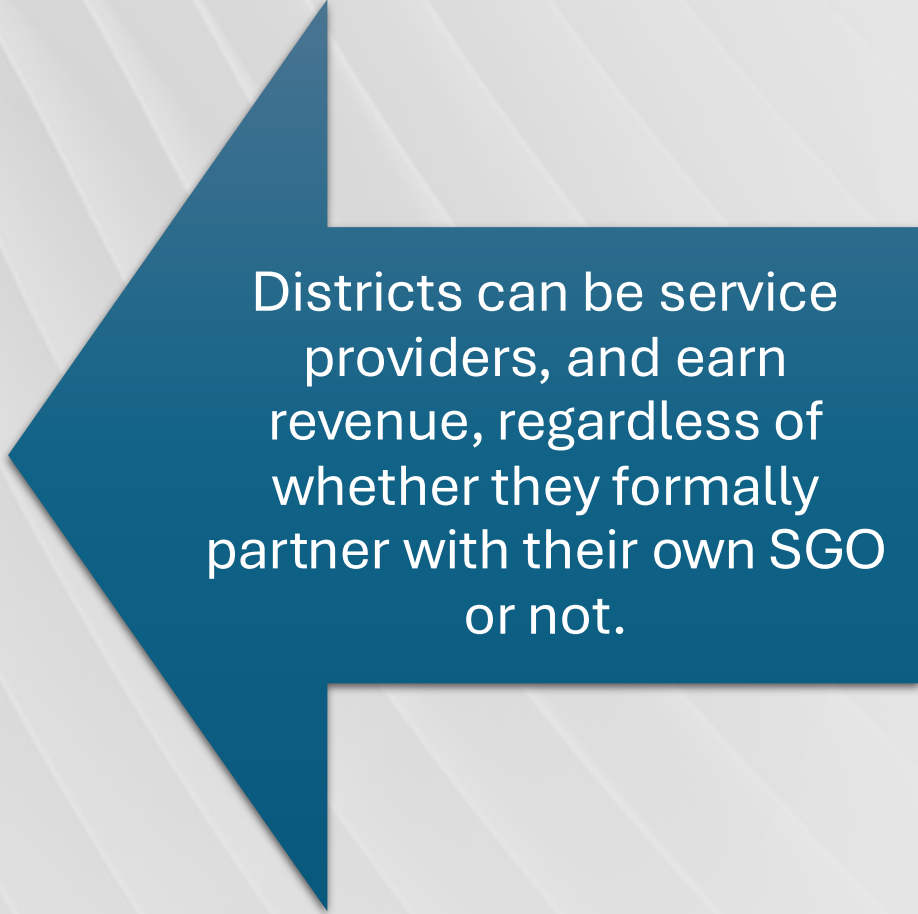
ON THE ONE HAND:

Failure to set up SGOs may mean other organizations receive fees for providing students services that your own organizations could provide or support.

Public School Communities and Allies



ON THE OTHER HAND:



Districts can be service providers, and earn revenue, regardless of whether they formally partner with their own SGO or not.

Public School Communities and Allies

EITHER WAY:

Proactive engagement is essential to ensure that tax credit funds, which might otherwise bypass public education, are instead reinvested to strengthen existing public school offerings and retain students.



PROCESS-WISE: Partnering & Collaboration

- Legally, the scholarship goes to the child, not the provider.
 - But in practice, SGOs must pay provider directly in child's name
 - Learning from voucher implementation:
 - Districts can cost-out services, set rates and capacity
 - Recruit, engage, offer to parents
 - Communication preferred or partnered SGO links and process
 - SGOs fund parents for district services at negotiated rates
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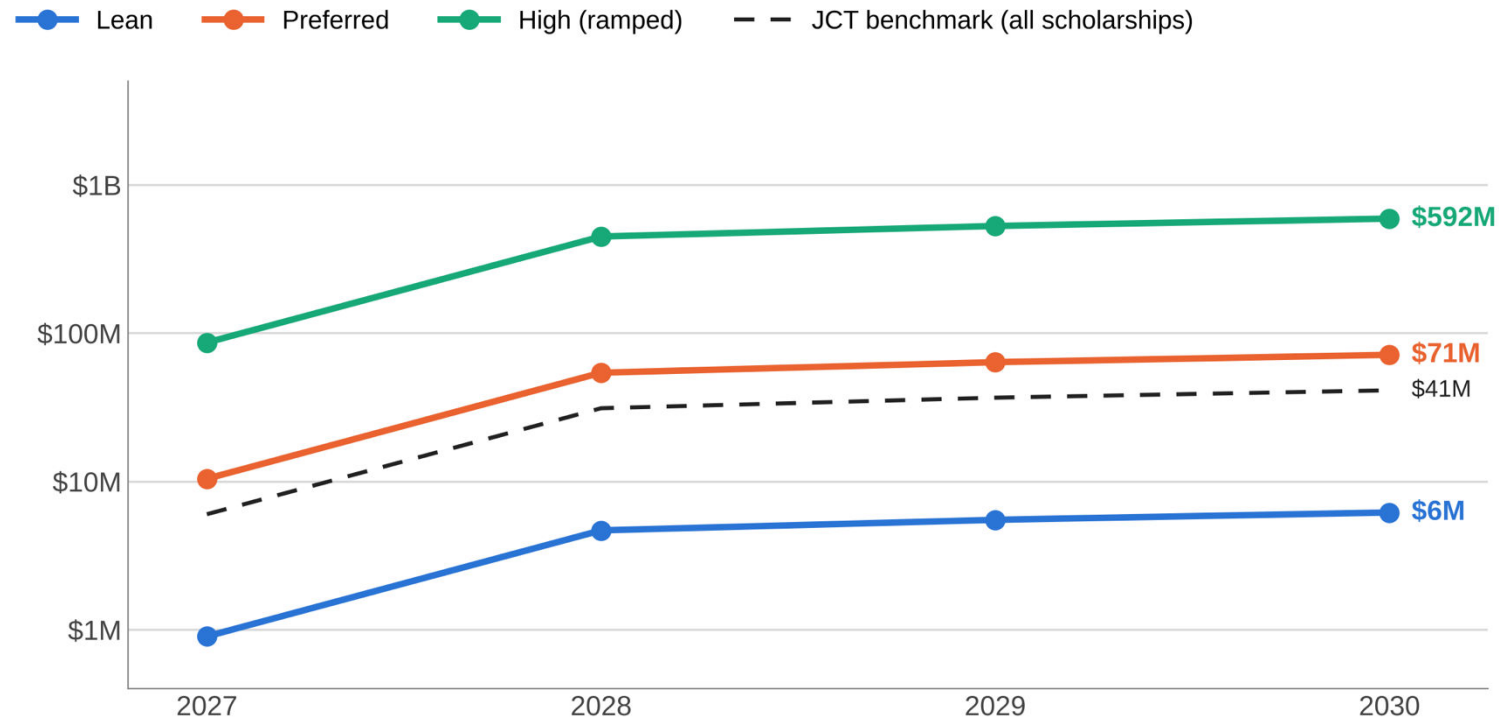
PROCESS-WISE: Partnering & Collaboration

- EXAMPLE:
 - 85% of districts offer some form of afterschool programming
 - Only 42% say it's fully funded for parents or providers
 - 80% of districts offer summer school
 - Only 40% say its' fully funded
- 

An early projection: \$200m for KY Public Schoolers in First 4 Years

Kentucky: projected annual FSTC revenue for public school students

Total dollars per year, net of the 10% SGO administrative set-aside; log scale. 4-year totals: Lean \$17M, Preferred \$199M, High \$1.65B.



Note: Log scale; each gridline is 10× the one below. Scenarios follow the JCT revenue-cost growth path (2027–2030: 5%, 27%, 32%, 36% of the four-year total). JCT benchmark = Kentucky's enrollment share of JCT's national cost for all FSTC scholarships. Kentucky public enrollment 657,263 (fall 2024). Sources: NCES Digest Tables 203.20 (2023, 2025 eds.); JCT JCX-35-25; Brookings; Roza et al., Edunomics Lab (2026). Model: J. Cowen, Michigan State University.

Treasury Regulations: The GOOD

- Public schools clear providers under the law
- Tutoring and special needs safe harbor and census tract auto-approval
- Priority awards by need and SGOs can be narrowly focused
- *Payroll giving allowed*—creates a fast donor base
- SGOs can (must) directly pay providers under student's name
- Pending 501(c)(3) status groups can be included in state SGO list
- Unexpectedly strong financial transparency (beats several state voucher schemes)

Treasury Regulations: The BAD

- Far more paperwork for public schools than private, especially around safe harbor
- Req that 90% revenue -> scholarships applies to all revenue, making it harder to use district/community foundations without a new c3
 - However 85% scholarship granting non-profits get safe harbor, and Treasury anticipates new affiliates will have to be created—this is good
- States can't impose stricter rules than federal guidelines unless law changes
- We still don't have expense guidance

Bottom Line

- Short of federal repeal, most/all states will opt in by FY 2029 (two years)
- A bigger and bigger share of federal K-12 spending
- Balance public opposition with private preparation
 - BUILD THE ARK BEFORE THE FLOOD
- Meet challenges and opportunities
 - Legal, financial, political
- State-specific legislative and lobbying strategies to maximize \$ for public school kids

More Resources:

AASA/ASBO/NAEF/ERS webinar series: [Defining Your System's Approach to the Federal Scholarship Tax Credit](#)

AASA/NAEF toolkit: [Public School Scholarship Granting Organization Toolkit](#)

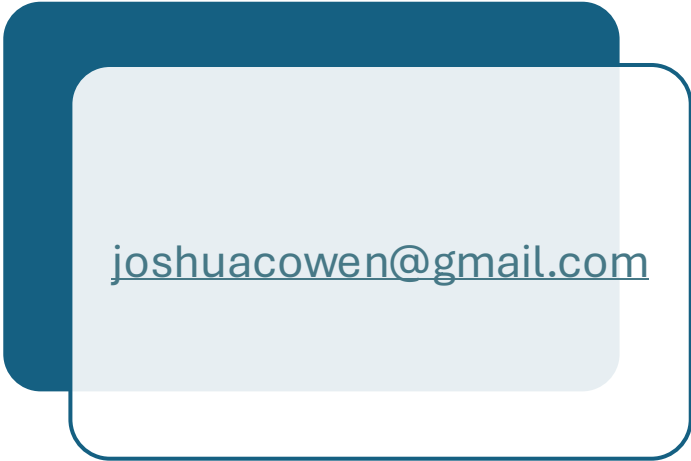
A Step-by-Step Guide to Forming, Qualifying and Operating a Public School Focused SGO Under the Federal Scholarship Tax Credit Program

Education Counsel: [Implementing the Federal Scholarship Tax Credit to Maximize Supports for Public School Students: Considerations for State-Level Leaders](#)

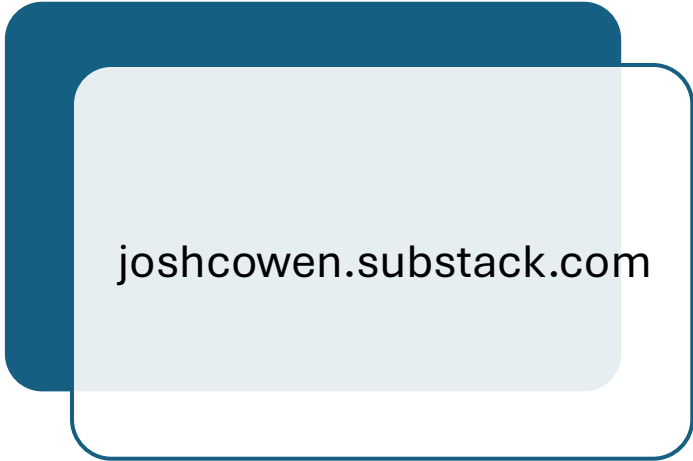
Questions



Dr. Josh Cowen



joshuacowen@gmail.com



joshcowen.substack.com