



AS THE FEDERAL SCHOLARSHIP TAX CREDIT TAKES SHAPE

A Field Guide for K–12 Public System Leaders



What the law does, what remains unresolved, and what leaders can do now

The federal scholarship tax credit is structured to operate largely outside traditional public education governance and funding. But public system leaders can help shape how it operates, and its consequences will reach their students and schools regardless.

The credit begins in 2027. By July 24, 2026, 30 states had made advance elections to participate, even though the rules that will determine how it works are not final. Those states must still submit lists of qualifying scholarship granting organizations, or SGOs, before taxpayers can receive the credit for contributions made within their states.

Treasury and the IRS expect to issue proposed regulations by the end of September, followed by separate guidance on eligible education expenses. In the meantime, states, SGOs, school networks, providers, and advocates are already preparing for implementation.

That creates a narrow window for public system leaders to prepare. Decisions made before the rules and infrastructure harden could determine which services are available, which families can access them, who controls the funds, and what safeguards exist before scholarships begin to flow.

Public system leadership does not stop at the boundaries of the school system. If SGOs expect to serve their students and families, state chiefs and superintendents should engage early and help shape their governance, priorities, and partnerships.

Students enrolled in public schools may be able to use scholarships for certain supplemental services. But the program is not direct funding for districts or public schools. It is not a substitute for Title I, IDEA, state aid, local revenue, or sustained public investment. Whether students served by public schools benefit will depend on federal guidance, SGO design, state implementation, family access, and local infrastructure.

Across every state context, public system leaders have an important role to play. This brief offers **five tests and seven actions to help leaders maximize benefit** for public-school students, protect families, and minimize negative effects on the public systems they lead.



The practical frame: At a time of significant fiscal pressure, the credit may create an additional source of support for children and families. But it is not direct public-school funding, and meaningful benefit will depend on how it is implemented.

What is settled—and what is not

What federal law establishes

- 1 Individual taxpayers may claim a nonrefundable federal tax credit of up to \$1,700 for qualified cash contributions to SGOs.
- 2 State participation is voluntary and annual. Participating states must submit a list of qualifying SGOs.
- 3 Participating students must be eligible to enroll in a public primary or secondary school and live in a household with income, for the calendar year before the scholarship application, no greater than 300 percent of area median gross income.
- 4 SGOs must meet federal requirements. Among them: serve at least 10 students who do not all attend the same school; spend at least 90 percent of income on scholarships; verify student eligibility; and prevent donors from earmarking contributions for specific students.

What remains unresolved

- 1 How the education-expense categories in Section 530 will apply to supplemental services for students enrolled in public schools.
- 2 Which public-school delivery and partnership models qualify, including direct-payment and reimbursement arrangements.
- 3 Whether multipurpose public charities and public-school-aligned nonprofits have a workable path to qualify as SGOs.
- 4 How the 90 percent scholarship-spending rule applies to organizations with broader missions.
- 5 The final scope of federal enforcement, state oversight, audits, reporting, family disclosures, and complaint processes.
- 6 What transition or interim guidance will govern preparation for 2027.

These distinctions matter. Tutoring, disability-related services, materials, technology, transportation, career-connected learning, and dual enrollment may represent valuable public-school-aligned uses. But leaders should distinguish services clearly permitted under current law from uses advocates are asking Treasury to clarify in forthcoming guidance.

Five tests for implementation

The program should be judged by how it works in practice – not by its broadest promise or its worst hypothetical. These five tests provide a consistent public-system lens across state contexts.

1 Who benefits?

The first question is not whether a student is technically eligible. It is whether the program creates meaningful access for students who need support most.

Access may depend on family awareness, application assistance, language access, transportation, provider availability, and whether a family can cover costs beyond the scholarship. Those barriers will not affect every community equally.

Leaders should press for privacy-protected reporting that shows who receives scholarships by geography, student characteristics, public- or private-school enrollment, scholarship amount, funded expense, and provider.

Key question: Does it create meaningful access – or mainly benefit families already able to navigate the program?

2 What protections follow students?

Families should understand what a scholarship covers, what it does not cover, what standards apply to the provider, and whether and how using a scholarship or changing settings may affect student rights and services.

A district should never condition access to a legally required, no-cost service on a family using scholarship funds. Families should receive clear, legally accurate information about how rights and services under IDEA, Section 504, and the ADA vary by provider and setting. Access should never be conditioned on an unlawful waiver of rights.

Key question: Can families make informed decisions, and do meaningful safeguards follow students – especially those with the greatest needs?

Five tests for implementation

3 Who is accountable?

A federal tax benefit administered through private organizations still warrants public accountability. SGOs should be subject to annual independent financial and programmatic audits, conflict-of-interest protections, safeguards against donor earmarking, and clear complaint, corrective-action, and enforcement procedures. SGO governance should include formal channels for input from education leaders, families, community partners, and public systems—especially when an organization expects to serve large numbers of public-school students.

Public reporting should show how many students participate; aggregate student characteristics; scholarship amounts; funded expenses, programs, and providers; administrative costs; and available evidence on participation, service quality, and outcomes. Reporting should protect student privacy.

Key question: Can the public see where the money goes, who benefits, what is purchased, and what happens when an SGO or provider fails?

4 What happens to public schools?

Student-level benefits are not necessarily system-neutral. Leaders should monitor effects on enrollment, revenue, staffing, fixed costs, specialized services, and the concentration of student need in public schools.

Public-school-aligned uses may support some students. Those uses should supplement—not replace—public investment or obscure the effects of the program on schools that remain responsible for serving every child.

Key question: Does implementation expand student support without destabilizing the public systems responsible for universal access?

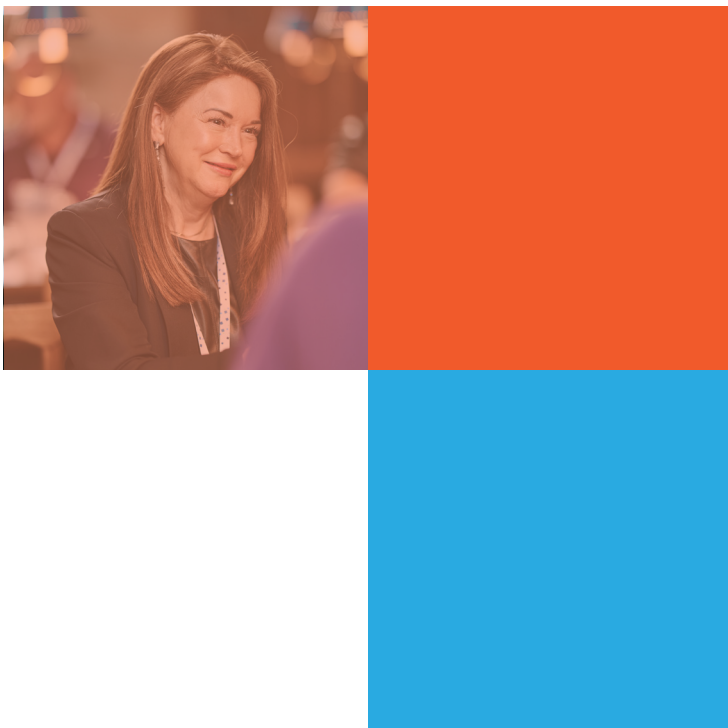
Five tests for implementation

5 What is actually enforceable?

The statute is enacted; however, the regulations are not final. Leaders should distinguish among requirements in federal law, Treasury’s June preview, forthcoming Section 530 guidance, state authority, voluntary SGO practices, and recommendations from Chiefs for Change or other organizations.

They should not promise automatic benefit for public-school students, district control of funds, eligibility of a proposed use, or state guardrails that may exceed available authority.

Key question: Is the approach lawful, workable, and backed by real enforcement authority – not merely plausible?



Seven actions public system leaders can take now

Public system leaders cannot control every element of the federal program. They can make meaningful public-school student benefit more likely – and reduce avoidable risk – by acting now on seven fronts.

1 Claim a formal role.

Map who controls the state's annual election, SGO list, certification, and oversight. Engage the governor's office, state education agency, and legislative leaders early. Press for a defined role for districts and other public system leaders in implementation decisions affecting students and schools.

2 Position the system as an SGO partner.

Identify organizations likely to seek SGO status and engage before their governance and operating models are set. Seek a governing-board seat or formal advisory role where permitted and appropriate. Bring data on children's and families' needs, connect credible community partners, and press for SGOs serving public-school students to maintain a durable relationship with the public systems responsible for them.

3 Start with student needs.

Identify gaps in tutoring, disability-related services, transportation, technology, dual enrollment, career-connected learning, or other supports. Test every proposed use against need, access barriers, quality, and existing public obligations.

4 Develop workable public-school pathways.

Examine whether public-school-aligned nonprofits, community foundations, and providers could participate lawfully. Explore direct-payment, reimbursement, district-partner, and state-level models, but do not assume any pathway qualifies until federal guidance and legal review support it.

5 Protect families before scholarships are accepted.

Seek plain-language disclosures on covered costs, provider obligations, remaining family expenses, student rights, data use, dispute procedures, and the relationship between scholarship-funded services and services public schools must provide for free.

6 Demand independent review and public evidence.

Press Treasury and states, within their respective authority, for annual independent financial and programmatic audits and privacy-protected reporting on who receives scholarships, what the scholarships purchase, which providers participate, administrative costs, service quality, and outcomes. Where state authority is limited, say so clearly and seek federal requirements.

7 Monitor system effects and course-correct.

Establish a baseline and track enrollment, funding, fixed costs, staffing, specialized services, student need, family access, and provider availability. Publish what the evidence shows and identify changes needed in federal rules, state implementation, or direct public investment.

How the work changes by state context

The seven actions above apply across states, **but the immediate priorities differ.**



States Participating

The focus should be on shaping implementation before it hardens. Public system leaders should seek a formal role in the SGO-list process, identify prospective SGOs, establish relationships early, and seek a governing-board, advisory, or formal partnership role where permitted and appropriate. They should assess whether credible public-school-aligned pathways are emerging and press for family protections, independent audits, public reporting, and clear complaint procedures. The central question is what must be true for students served by public schools to benefit in real, equitable, lawful, and accountable ways.



States Still Deciding

Where participation remains undecided, public system leaders should give governors and other state decision-makers a clear analysis of the student needs the program might address, the safeguards implementation would require, and the likely effects on public schools. They should also prepare to lead under either outcome.



States Not Participating

Leaders should communicate clearly about what nonparticipation means for students, families, and public schools; monitor implementation in participating states; and continue addressing the underlying needs directly. They should help families understand what supports remain available, identify gaps that require public investment, and use new federal guidance and emerging evidence to inform future planning and state-level conversations.



Conclusion

The federal scholarship tax credit is now law. Meaningful benefit for students served by public schools is not automatic, and neither are the safeguards needed to protect families and public systems.

Public system leaders may not control whether their state participates, but they have a consequential role in shaping what follows. They can identify the student needs the program could address, press for lawful and workable public-school pathways, demand family protections and public accountability, and monitor effects on enrollment, funding, staffing, and services.

The strongest role for public system leaders is neither passive endorsement nor reflexive dismissal. It is active civic and implementation leadership: engage before structures harden, build relationships with the organizations that may serve families, and insist on clear rules, workable pathways, family protections, public evidence, and honest limits.

Implementation is not a spectator sport. If SGOs will serve their students and families, public system leaders should help shape them—and demand clear answers, public evidence, and accountability.



Sources

1. [Public Law 119-21, Section 70411](#)
2. [IRS Notice 2025-70](#)
3. [IRS Revenue Procedure 2026-6](#)
4. [U.S. Department of the Treasury, Preview of Forthcoming Guidance](#)
5. [IRS Federal Scholarship Tax Credit state list](#)

Disclaimer: This brief summarizes federal law and guidance for general informational purposes; it is not legal advice. Federal implementation details may change as proposed and final guidance is issued.



Chiefs for Change is a nonpartisan network of visionary superintendents and state education leaders united by a shared mission to transform public education and ensure every student has the opportunity to succeed. Our members lead school systems reaching millions of students across the country.