Leveraging the Federal Scholarship Tax Credit: What Now, and What's Next?

October 27, 2026

ALLIANCE FOR YOUTH THRIVING

The Campaign for GRADE-LEVEL READING

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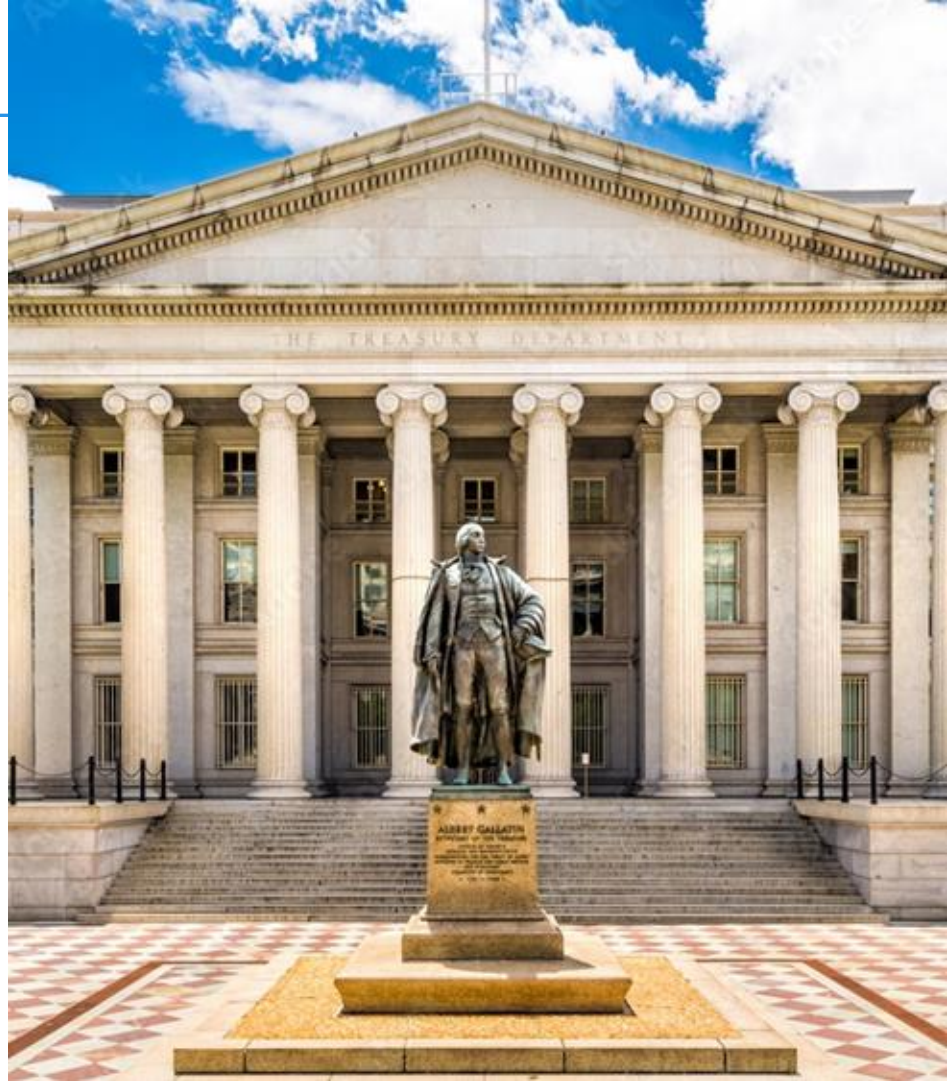
ALLIANCE FOR YOUTH THRIVING

FSTC Statute Overview

OBBBA created a new federal tax credit up to $1,700 for individual contributions to **Scholarship Granting Organizations (SGOs)** that fund scholarships for **eligible students** in **participating states** to cover **qualified education expenses** related to enrollment in a public, private, or religious school.



FSTC Statute Overview

State Participation requires:

- The **governor** (or other state official designated under state law) must choose **each year** for the **state to participate** in the tax credit program and provide a list of SGOs that meet statutory requirements.

SGOs must be "located in" the participating state and:

- Be **nonprofit** organizations (excluding private foundations),
- Provide scholarships for **10 or more students** (who attend **2+ schools**) &
- Spend at least **90% of income** on scholarships

FSTC Statute Overview

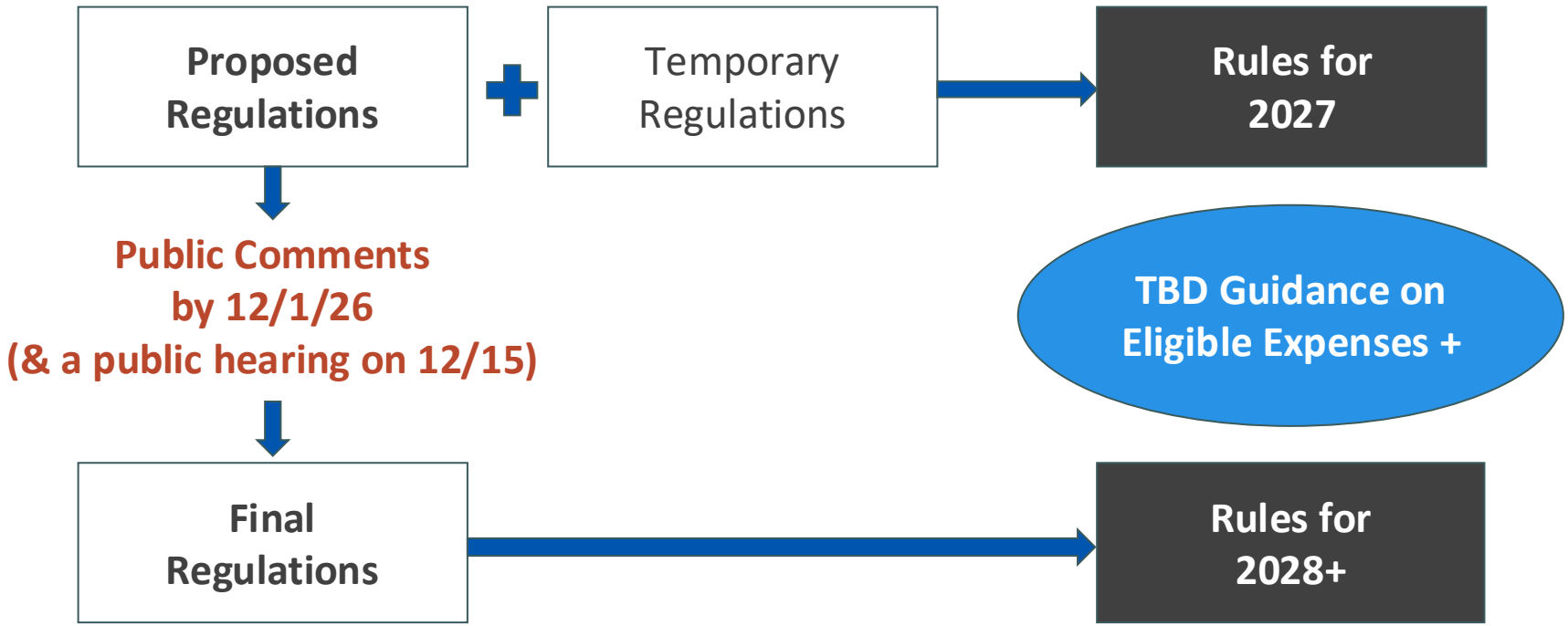
Eligible students are:

- In household w/income **less than 300%** of the area median gross income and
- **Eligible to enroll** in public elementary or secondary school in the state

Eligible expenses (from Coverdell) include:

- **Tuition, fees, academic tutoring, special needs services, books, supplies, and other equipment** in conjunction with enrollment at a public, private or religious school,
- **Room and board, uniforms, transportation, and supplementary items and services (including extended day programs)** required or provided by the school &
- Purchase of **computer technology** or equipment, **internet** access

FSTC Proposed Regulations (PRs): Process and Timing



FSTC Proposed Regulations – Quick Takeaways

1. Tracks Treasury's preview
2. Does not address qualified education expenses
3. Limited formal state authority
4. Significant SGO responsibilities
5. Clarifies many technical aspects of FSTC implementation

Update on Significant FSTC Issues

State Authority

Waste, Fraud & Abuse

90% of Income Rule

Eligible Students

Definition of School

Eligible Expenses

Update on Significant FSTC Issues

State Authority Over SGO List

- **Can't** add additional SGO requirements
- **Must** certify each SGO meets requirements

90% of Income Rule

- **"Safe harbor"** for organizations whose activities are 85% scholarship-granting activities

Definition of School

- **Coverdell definition:** School means "any school which provides elementary or secondary education (kindergarten through grade 12), as determined under State law."

Waste, Fraud, and Abuse

- **State**: requirements "reasonably tailored to" prevent and detect
- **SGOs**: Verify student and expense, audits, flow of scholarships

Eligible Student

- **Direct or categorical** (needs-based programs and foster kids)
- **"Safe harbor"** for students receiving tutoring or special needs services at schools in low-income areas

Eligible Expenses

- **Separate guidance** to "clarify the meaning of qualified expenses and schools" by EOY

State Authority

SEE APPENDIX FOR ADDITIONAL DETAIL SLIDES

PRs Confirm:

- No state discretion to be more restrictive than statute.
- States must require compliance with "generally applicable State requirements for charitable organizations" and "reporting requirements that are reasonably tailored to" prevent "fraud or abuse."
- Participating states must opt-in and provide SGO lists (by 11:59 pm on 1/1 and by 2/15, respectively, in 2027).

Next-phase implications/questions:

- How can states incentivize donor behavior, e.g., through "preferred" SGO list?
- How could states leverage generally applicable laws to promote transparency, accountability, quality, etc.?
- To what extent will Treasury require/permit states to address *waste*, fraud, and abuse?

WHY TUTORING MATTERS HERE

Parents want tutoring

50CAN

86%

of parents favor free tutoring for students below grade level, the top-ranked policy tested

Tutoring participation rose from 19% to 24%, and the income gap narrowed from 9 to 5 points

State of Educational Opportunity in America, 2nd ed. (2026), 23,000+ parents

NATIONAL PARENTS UNION

77%

of public school parents support a tax credit scholarship limited to tutoring and after-school programs, vs. 40% if limited to private tuition

89% say more tutoring programs would help their child improve in math

NPU / Echelon Insights, 1,516 public school parents (Dec. 2025)

EDCHOICE

33%

of parents would spend education savings account funds on tutoring, their second most popular choice

Over 70% of school parents support the federal scholarship tax credit itself

EdChoice, 2026 Schooling in America

The takeaway: demand is broad and bipartisan. The open question is whether scholarship dollars buy tutoring that works.

WHAT THE RULES SAY

Two problems to solve

1 "Individual academic tutoring"

- Treasury's phrase. The statute says only "academic tutoring."
- Undefined, and used 8 times, including the award-priority exception for tutoring
- Could be read as one-on-one, excluding small-group tutoring

OUR ASK

Use the statutory term, or confirm that individually selected students can be tutored in small groups

2 Why is tutoring singled out?

- In June, Treasury floated a safe harbor for low-income-area schools generally
- The proposed rule limits it to tutoring and special-needs services, with no stated reason
- Our read on why: it protects against wealthy students using scholarship funds for tuition

OUR ASK

Ask Treasury to explain the scope. If tuition is the concern, wider coverage for tutoring doesn't threaten it

WHAT THE RULES SAY

Tutoring safe harbor: a fast lane with a toll

Four ways an SGO can verify a student's income

1. Direct check	2. Program participation	3. Tutoring and special-needs safe harbor	4. Foster children
Pay stubs, tax returns	SNAP, TANF, WIC, Section 8, SSI	No household income check	Qualify automatically

The fast lane

- School is in a HUD Qualified Census Tract, or 80% of its students live in one
- School selects students based on academic need
- Household income is not checked

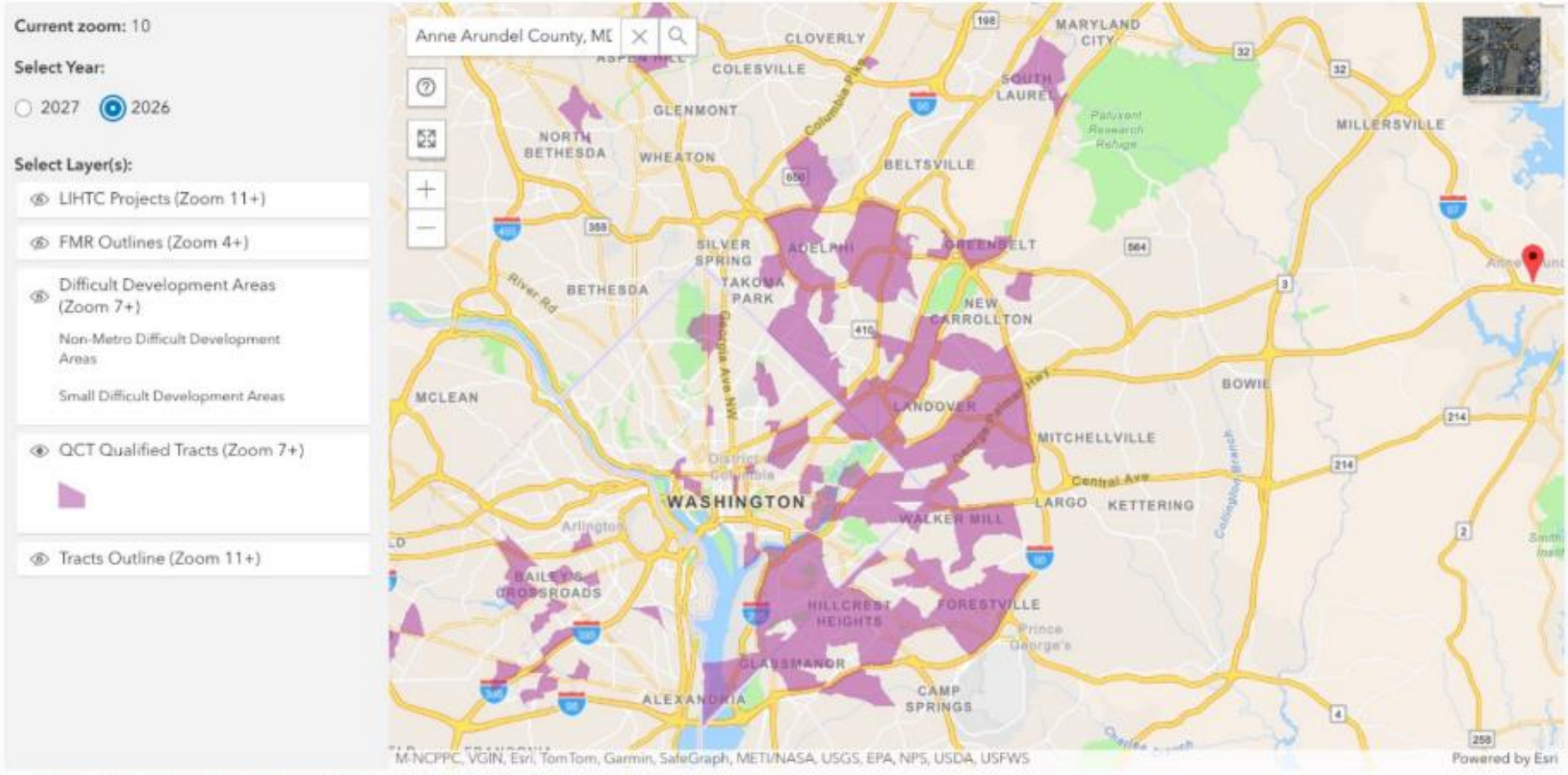
The toll: an annual independent audit, sent to the state

- Tutors were qualified
- Each student's need was independently diagnosed
- Services met appropriate quality standards
- Duration and frequency were enough to produce benefit
- Impact on each student was assessed

Proposed Treasury estimates about 170,000 additional students become eligible. The same path covers special-needs services.

Outside the safe harbor, no quality standard applies. Paths 1, 2, and 4 have no diagnosis, dosage, or impact check.

HUD Qualified Census Tracts: at least half of the households earn <60% AMI, or poverty rate >25%



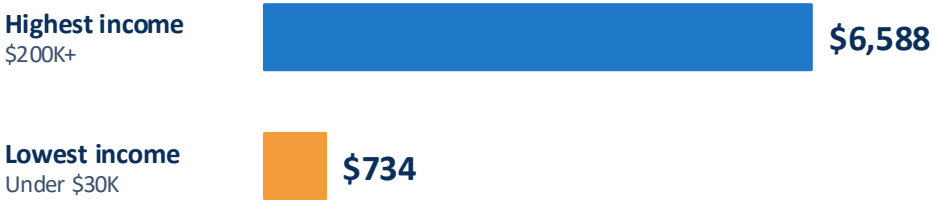
THE CHALLENGE

Families pay for learning after school. The gap is widening.

9x

gap in annual spending per child on out-of-school activities, 2025

Up from about 5x in 2020. Spending by the lowest-income families fell after inflation.



$211B

a year spent by U.S. families on education before the pandemic

$129B supplemental activities and products (sports, enrichment, learning apps, kits)

$82B core schooling

22.6M more children would be in afterschool if a program were available to them

56% of parents whose children aren't enrolled say programs are too expensive

Sources: Afterschool Alliance, America After 3PM (Oct. 2025), pp. 6, 21, 26 · Bellwether, Some Assembly Required (Aug. 2022), p. 9, citing Tyton Partners, School Disrupted (May 2021)

AFTERSCHOOL BENEFITS FROM CHILDHOOD TO ADULTHOOD

Stronger Learners, Earners, Leaders

Young people who consistently participate in afterschool programs benefit in the short- and long-term, with positive impacts lasting into adulthood.

ELEMENTARY SCHOOL

- ⬆ Improved school attendance
- ⬆ Higher grades
- ⬆ Improved social skills
- ⬆ Increased positive relationships with peers and staff

SECONDARY SCHOOL

- ⬆ Higher GPAs
- ⬆ Higher test scores
- ⬆ Higher graduation rates
- ⬆ Improved confidence
- ⬆ Improved decision-making (reduced drug and alcohol use)

YOUNG ADULTHOOD

- ⬆ Higher earnings
- ⬆ Higher educational attainment
- ⬆ More healthy choices (fewer risk-taking behaviors and less police contact)
- ⬆ Higher community engagement

URGENT PRIORITY FOR FAMILIES

America After 3PM

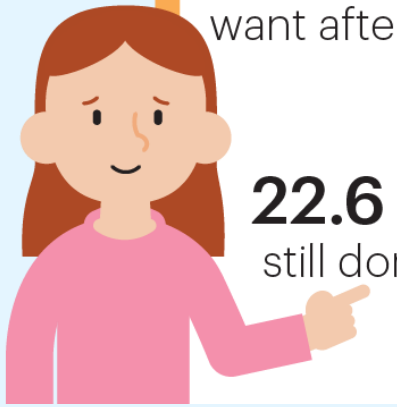
Parents of

29.6 million kids

want afterschool programs

22.6 million kids

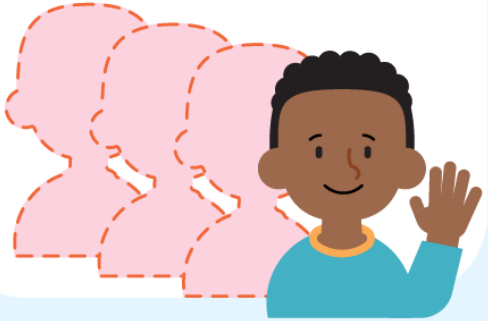
still don't have access



More than

3 in 4

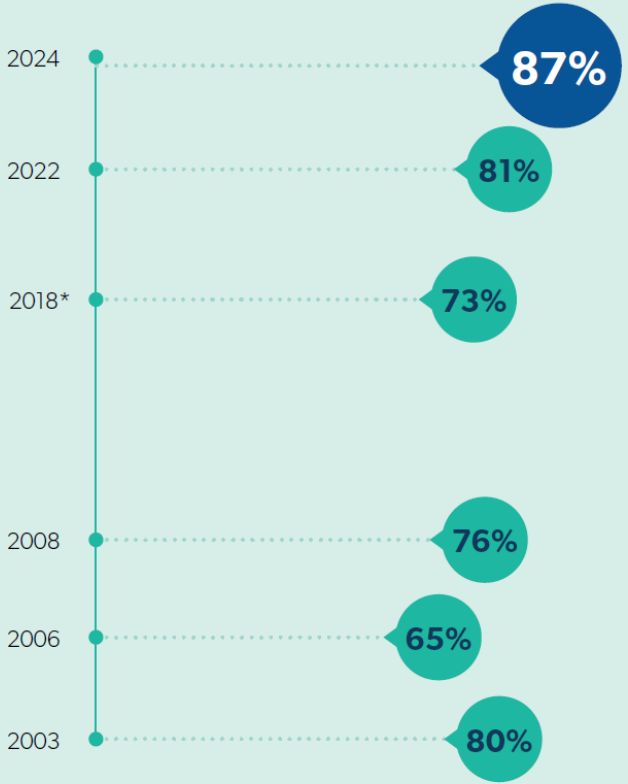
kids are missing out



Afterschool Alliance

Voters say afterschool programs are a necessity

Nearly 9 in 10 voters agree that afterschool programs are an **absolute necessity for communities**, an all-time high for support.



*2018 is of likely voters

AFTERSCHOOL AND SUMMER

What we're waiting on from Treasury

Guidance on qualified expenses

Treasury says separate guidance will clarify what counts. Not yet released.

1. **Afterschool**
   What "supplementary items and services (including extended day programs)" covers
2. **Summer**
   Whether summer learning programs count
3. **"Required or provided by" the school**
   School-run programs only, or community partners too?

Reminder: the Coverdell list

Qualified expenses, IRC § 530(b)(3)(A), abridged

(i) Tuition, fees, academic tutoring, special needs services, books, supplies, and other equipment, in connection with enrollment or attendance at a public, private, or religious school

(ii) Room and board, uniforms, transportation, and **supplementary items and services (including extended day programs)** which are **required or provided by** such a school

(iii) Computer technology, equipment, and internet access

Sources: 26 U.S.C. § 530(b)(3)(A), applied by § 25F · Treasury and IRS proposed regulations (Oct. 2026) · EducationCounsel briefing (Oct. 7)

Opportunities for Public School Students

Potential Opportunities for Public School Focused SGOs

- Afterschool academic programs
- Tutoring outside the regular school day
- Extended-day, afterschool and enrichment programs
- Other learning opportunities beyond the traditional school day

- **Career exploration and preparation programs**
- **Academic and career competitions**
  (e.g., TSA, HOSA, FLL, and similar programs)
- **Special needs and supplemental educational services**
- **SAT/ACT preparation and eligible exam fees**
- **Dual-enrollment tuition and eligible fees**

Additional guidance is still pending

Treasury has not yet issued additional guidance defining eligible elementary and secondary school expenses. Further guidance is expected before January 1, 2027.

Examples for planning purposes

Scholarship Fund Disbursements

Can be provided:

- **Directly to schools** as a payment for eligible qualified primary and secondary expenses.
- **Directly to vendors or third-party providers** as an eligible service for qualified primary or secondary expenses.
- **Through an optional Digital Wallet** for management and payment of eligible qualified primary and secondary expenses (Digital Wallets are not required).
- **As a reimbursement** to families for eligible qualified student expense – documentation is required.

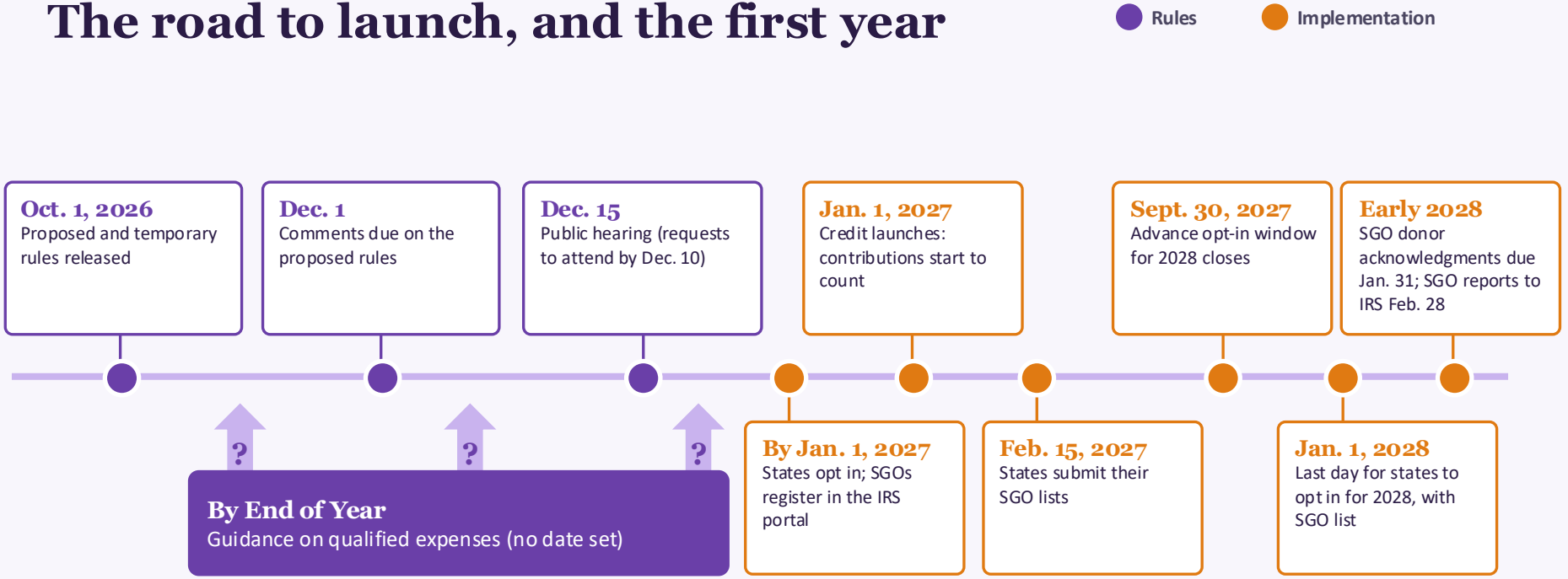
Leveraging the Federal Scholarship Tax Credit:

WHAT NOW & WHAT NEXT?

What can leaders and practitioners across the allied youth fields do now to prepare for 2027 and beyond?

KEY DATES

The road to launch, and the first year



Sources: Treasury and IRS temporary regulations, T.D. 10057, and proposed regulations, REG-117199-25 (Oct. 2026)

TAKEAWAYS & TO DO'S

What the field needs to build

1 SGOs for uses beyond tuition

Ready to connect families to programs on day one, including the expansion and build out of infrastructure for public school students

2 Provider connections

Optimizing connections to providers, including clarifying pricing and reimbursement mechanisms, network infrastructure, school partnerships.

3 Cross-community donor base

Encourage taxpayers to contribute to scholarships in the communities with greatest need. Help FSTC close the gap rather than widen it.

4 Quality and outcomes data

Required reporting is mostly financial. States, SGOs, provider networks, and funders can ask for more.

5 Marketing & Outreach

Marketing to taxpayers and families. Encourage employers to create systems for easy donation (payroll deduction). Educate tax accountants and more.

6 Philanthropic "angel investing"

Up-front investments in critical infrastructure.

Considerations for State-Level Leaders in FSTC States

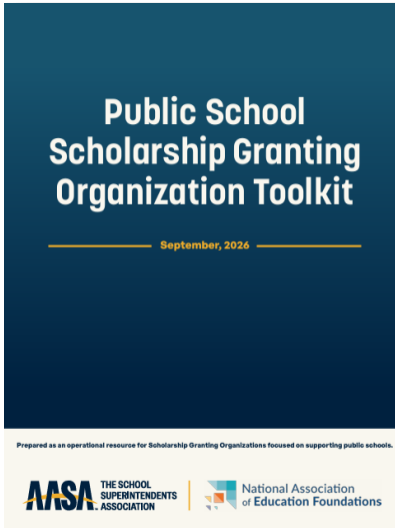
1) Set a Goal and Strategy to Support Public School Students

2) Align State Government Policies and Practices + **3) Support Infrastructure** + **4) Develop Communication Campaigns and Incentives**

Creating a New Public School Focused SGO

Create a new 501(c)(3) public charity dedicated exclusively to serving as an SGO:

- **Establish a stand-alone public school focused organization:** Incorporate as a nonprofit, appoint a board, adopt bylaws and policies, obtain an EIN, and apply for IRS recognition as a 501(c)(3) public charity.
- **Use the NAEF–AASA Public School SGO Toolkit:** Follow its formation guidance, implementation checklists, and sample policies to build governance, financial controls, and scholarship procedures.
- **Pursue state SGO approval:** Treasury's temporary rules allow a state SGO list to include organizations whose IRS tax-exemption applications are pending when the list is submitted, subject to required state certifications and conditions.



A RESOURCE FOR PUBLIC-SCHOOL SGOs

AASA THE SCHOOL SUPERINTENDENTS ASSOCIATION | National Association of Education Foundations

Public School Scholarship Granting Organization Toolkit

An operational resource for SGOs focused on supporting public schools

September 2026 · current as of Sept. 1, before the Oct. 1 proposed rules

Download the toolkit
aasa.org (PDF)

What's inside

1. Federal Tax Credit & Public School SGO Model
2. Forming a Public School SGO
3. Governance, Board & Operating Structure
4. Becoming & Remaining a Qualified SGO
5. Financial Administration & Internal Controls
6. Scholarship Program & Award Guidelines
7. CRM, Scholarship Software & Data Systems
8. Fundraising & Qualified Contributions
9. Donor Development & Stewardship
10. Compliance, Risk & Resilience
11. Annual Reporting, Audit & State Renewals
12. Communications & Community Engagement
13. First 100 Days Launch Plan
14. Annual Calendar & KPIs

Appendices A–S: formation, readiness, RACI, fee, source, and update tools

Source: Public School Scholarship Granting Organization Toolkit (Sept. 2026), posted at aasa.org

TAKEAWAYS & TO DO'S

What providers & provider networks can do now

Get ready for an SGO to fund you

1. **Find your SGOs**
   Connect with SGOs you can trust that care about quality and prioritize serving students with greatest needs in your state. Get help identifying or creating options.

2. **Make your work visible. Document your relationships.**
   MOUs, partnership letters, and spots on school referral lists. Whether a service is "required or provided by" is still to be clarified – but get ready.

3. **Know your true cost**
   Your real per-week or per-session cost, even if you don't currently charge families for it.

4. **Communicate with your families and students who may be eligible for scholarships**
   Ensure those with greatest need are able to access these opportunities and resources when they become available.

And build connections

Communicate your mission
Communicate with families, SGOs, school partners re: your focus, quality and reach.

Strengthen your network infrastructure
Make it easier for schools to identify and partner with providers at scale

Ask funders
for help with SGO capacity, marketing, and quality reporting

Sources: Afterschool Alliance and Accelerate

TAKEAWAYS & TO DO'S

Weigh in with Treasury

Now
Weigh in on non-regulatory guidance

Dec. 1
Comments due on the proposed rules (REG-117199-25), at regulations.gov

Dec. 10
Requests to attend the hearing due

Dec. 15
Public hearing, IRS, Washington DC

Adopt a broad definition of "Eligible Expenses"

Now: guidance not yet issued

- Clarify that SGOs can offer scholarships "for afterschool programs in schools and communities"
- Confirm services are "provided by" the school when partners deliver them through an MOU, contract, or other documented school arrangement
- Define extended day as "learning opportunities outside of the traditional school day," including community, faith-based, and for-profit partners working with schools
- Include summer: don't "define an eligible educational experience" based on the time of day or year; confirm expenses can span school years
- Confirm location doesn't decide eligibility: services can take place in or outside a school building
- Defer to state definitions of "school" including where that allows services to pre-K students

Clarify Safe Harbor for Tutoring and Special-Needs Services

Dec. 1: proposed rules

- Replace "individual academic tutoring" with the statutory term
- Define academic tutoring broadly: individual or small-group, high-impact, virtual or in person
- Define the quality standard using research-based features
- Accept school screeners as proof of need
- Expand quality standard eligibility categories

Other key points

Dec. 1: proposed rules

- Define what makes a provider "verified," and set payment timing
- Let SGOs rely on state- or district-approved provider lists to verify providers
- Confirm SGOs can pay districts directly, not just individual schools
- Consider other needs-based programs as proof of income
- Affirm importance of promoting and reporting against quality standards
- Affirm states' ability to require reporting to prevent waste, fraud, and abuse, beyond meeting statutory requirements
- Give new SGOs workable timing to qualify, including the 85% safe harbor

Sources · Afterschool Alliance · AASA · EducationCounsel

TAKEAWAYS & TO DO'S

Resources to keep handy

FAQ

Education Freedom Tax Credit fact sheet and FAQ

Treasury and Education Dept., Oct. 2026

home.treasury.gov →

THE DETAILS

Proposed & temporary regulations

Treasury and IRS, Oct. 2026

Proposed → Temporary → IRS →

COMMENT

Submit comments by Dec. 1

Docket REG-117199-25

regulations.gov →

ONE-PAGERS

Quick explainers to share

Federal Scholarship Tax Credit one-pager
FutureEd, June 2026
ewa.org →

Potential Funding Opportunity for Afterschool and Summer in 2027
Afterschool Alliance
afterschoolalliance.org →

NSSA one-pager (coming)

REGS DEEP DIVE

Unpacking Treasury's Proposed Regulations for the FSTC

EducationCounsel, Oct. 9, 2026

educationcounsel.com →

STATE LEADERS

Implementing the FSTC to Maximize Supports for Public School Students

EducationCounsel

educationcounsel.com →

AFTERSCHOOL

Scholarship Tax Credit for Afterschool

Afterschool Alliance

afterschoolalliance.org →

SGOs

Public School SGO Toolkit

AASA

aasa.org →

VIDEO

How will the FSTC work?

Education Resource Strategies

erstrategies.org →

PROJECTIONS

FSTC Projection Tool

Education Resource Strategies

erstrategies.org →

WEBINAR SERIES

Leveraging the Federal Scholarship Tax Credit

Past sessions, CGLR and AYT

Dec. → Feb. → Mar. → Sept. →

Accelerate
National Collaborative for Accelerated Learning

§25F EDUCATION FREEDOM TAX CREDIT (FSTC)

Reports Library: five ways to find the right document

27 documents across five themes, from the shared Drive folder as of October 15, 2026. Titles link to the files.

1 Public-school access advocacy

5 reports

Use it to: cite allied validators making the case that FSTC should work for public-school students.

- AASA Public School Scholarship Toolkit (Sept 2026)
- AASA: What the New Federal Scholarship Tax Credit Regulations Mean for States, SGOs and School Districts
- EdCounsel State Leaders Brief
- EducationCounsel Deep Dive: Unpacking Treasury's Proposed Regulations (Oct 9, 2026)
- Chiefs for Change FSTC

2 Program mechanics and compliance

5 reports

Use it to: answer "how does this actually work" questions on safe harbors, expense rules and operations.

- Edunomics 30-minute overview
- A Primer on the OBBBA Federal Education Tax Credit
- CRS Study
- Education Next: Federal School Choice Is Here. Is the Field Ready? (McShane)
- Holland & Knight Alert: Treasury Guidance Clarifies the Education Freedom Tax Credit (Oct 6, 2026)

3 Opposition and risk framing

5 reports

Use it to: anticipate pushback and pressure-test your own messaging before it goes out.

- Sen. Sanders Federal Privatization report
- NCPE: Landscape of Risks
- Debunking USED/Treasury Fact Sheet
- Brookings: Who is likely to benefit from the Federal Scholarship Tax Credit?
- Coalition letter to governors urging states not to opt in (Sept 30, 2026)

4 Polling and public opinion

3 reports

Use it to: ground talking points in what parents and voters say about the credit and tutoring.

- National Parents Union Survey Topline (Dec 2025)
- DFER National ECCA Poll Memo (Sept 2025)
- SIA Polling (2026)

WEBINAR · OCT 19, 2026

The Latest on the Federal Scholarship Tax Credit: Opportunities and Challenges for Public Schools

Co-sponsored by FutureEd, NSSA and Accelerate

5 Public documents

9 documents

Use it to: track what Treasury has issued and what stakeholders have filed. These are primary documents, not analysis.

TREASURY RULES (OCT 2, 2026)

- Temporary regulations, TD 10057 — Temporary
- Proposed regulations, REG-117199-25 — Comments due Dec 1

OTHER TREASURY AND IRS MATERIALS

- IRS Notice 2025-70, request for comments (Dec 2025)
- Treasury DAS Salinger preview (June 2026)
- IRS Form 15714

FILED COMMENTS

- Accelerate comment on Notice 2025-70
- Rep. Scott comment (Dec 2025)
- Afterschool Alliance Treasury comments
- NPU ECCA Treasury public comment

CONTACT

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Prepared by Accelerate · October 15, 2026

APPENDIX: Detailed Analysis from EducationCounsel

Update on Significant FSTC Issues

- State Authority
- Waste, Fraud & Abuse
- 90% of Income Rule
- Eligible Students
- Definition of School
- Eligible Expenses

The information provided in this document is not legal advice and its receipt does not constitute an attorney-client relationship.

State Authority

PRs Confirm:

- No state discretion to be more restrictive than statute.
- States must require compliance with "generally applicable State requirements for charitable organizations" and "reporting requirements that are reasonably tailored to" prevent "fraud or abuse."
- Participating states must opt-in and provide SGO lists (by 11:59 pm on 1/1 and by 2/15, respectively, in 2027).

Next-phase implications/questions:

- How can states incentivize donor behavior, e.g., through "preferred" SGO list?
- How could states leverage generally applicable laws to promote transparency, accountability, quality, etc.?
- To what extent will Treasury require/permit states to address *waste*, fraud, and abuse?

90% of Income Rule

PRs confirm:

- Generally, SGOs must spend at least 90% of their total income on scholarships.
- SGOs effectively have two years to spend funds
- "Safe harbor" for organizations whose activities are 85% scholarship-granting activities (in general).
  - 90% rule then applies to qualified contributions in required segregated account.
  - 85% includes costs associated with promoting and granting scholarships.
- States may recognize SGOs while IRS 501(c)(3) status is pending.

Next-phase implications/questions:

- Many existing NFPs will likely need to create new "subsidiary" 501(c)(3)s to qualify for SGO safe harbor (applying to IRS by 1/1 in 2027)
- How can aligned SGOs get support for near-term action and significant administrative responsibilities, including near-term timing challenges.

Fraud & Abuse

PRs confirm:

- SGOs have to appear on state list and register for IRS SGO portal/list.
- Matching donor ID process for each contribution.
- SGOs must verify student eligibility, expense eligibility, comply with requirements reasonably tailored to prevent and detect fraud or abuse. Annual financial and programmatic audits required. SGOs must report select data.
- States must require SGOs to comply with reporting requirements reasonably tailored to prevent “fraud and abuse.”
- PRs prohibit scholarships to “substantial contributors” to SGO, but set high bar?

Next-phase implications/questions:

- How can SGOs best meet these requirements?
- Is this approach sufficient to address fraud and abuse?
- How could states best meet and leverage the responsibility to prevent [waste], fraud, and abuse to advance transparency, accountability, quality, etc.?

Eligible Expenses

PRs confirm:

- Specific Coverdell statutory language on eligible expenses, including tutoring, special needs services, and extended day.
- Treasury intends to issue separate guidance to "clarify the meaning of qualified expenses and schools" (by EOY).
- SGOs can issue scholarships to families (only as reimbursements for paid costs), directly to schools, or to "verified vendors" (providers).

Next-phase implications/questions:

- It's important that Treasury guidance on allowable uses broadly define terms (e.g., "supplementary services"), but also critical to develop multiple arguments for why expenses may be eligible.
- Requirement that SGOs must pay schools for school services creates clarity for district-SGO models (though only says "school" not "district"...).
- How could the requirement that vendors be verified support potential state or local leverage to ensure transparency, accountability, quality, etc.?

Defining “School”

PRs confirm:

- Coverdell definition.
  - School means “any school which provides elementary or secondary education (kindergarten through grade 12), as determined under State law.”
- PRs silent on PreK or homeschools.
- Preamble says forthcoming guidance will “clarify the meaning of…schools.”

Next-phase implications/questions:

- How broadly can states define “school” under this definition?
- Can Pre-K be included, and will that be addressed in pending guidance? (Note that there is another argument for inclusion under the definition of “eligible student.”)
- What connection to the school is required for an expense to be “required or provided”?

Eligible Students

PRs confirm:

- Wide eligibility of students based on income requirements.
- Multiple verification methods: Written docs (e.g., pay stubs, tax returns); participation in certain needs-based program: SNAP, TANF, WIC, SSI, Section 8.
- Automatic eligibility for children in foster care.
- Complex safe harbor for students attending schools in low-income areas who need tutoring or special needs services, including focus on quality and assessment.

Next-phase implications/ questions:

- Are there other needs-based programs that Treasury should consider as verification?
- How does SGO use of the safe harbor for tutoring/special needs services provide opportunities and challenges to advancing quality, impact, etc.?