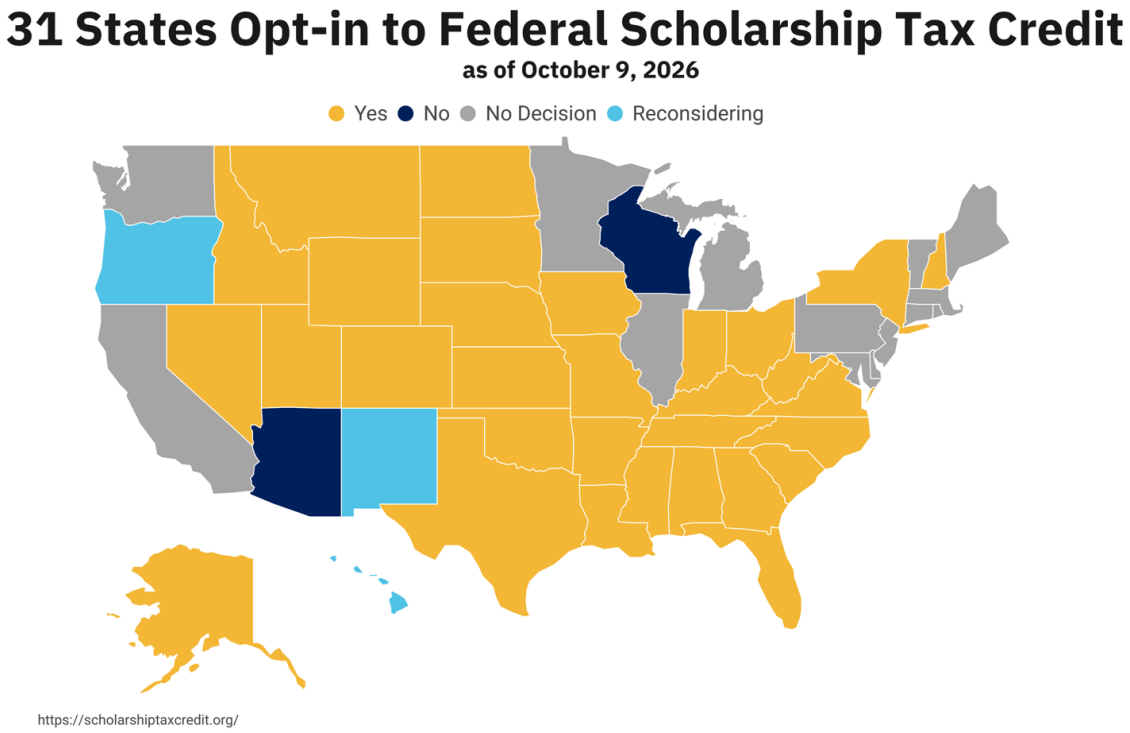
COMMONWEALTH FOUNDATION | FACT SHEET

Federal Scholarship Tax Credit

Tens of thousands of kids waitlisted for Pennsylvania's tax-credit scholarship programs could receive scholarships under the new federal program.

FIRST-EVER FEDERAL TAX-CREDIT SCHOLARSHIP PROGRAM

- Last July, Congress passed the first-ever Federal Scholarship Tax Credit (FSTC) program, Section 70411 in the 2025 budget reconciliation bill, or the "One Big Beautiful Bill Act" (Public Law 119-21).
- The Federal Scholarship Tax Credit will offer scholarships for qualified educational expenses for K–12 students in participating states.
- Governors must "opt in" to join the FSTC by January 1, 2027.
- Beginning in 2027, participating states can accept donations via scholarship-granting organizations (SGOs) from individual donors with an IRS tax liability.



WILL PENNSYLVANIA OPT IN?

- Pennsylvania has not yet opted in. A "yes" from Gov. Josh Shapiro on this transformative program will improve access to educational opportunity for the nearly 2 million K–12 students across all zip codes in Pennsylvania.
- The deadline to "voluntarily elect to participate" in the program and become a "covered state" in 2027 is January 1, 2027.
- In December 2025, the U.S. Department of the Treasury and IRS issued a guideline for states to, starting January 1, 2026, submit their "Advance Election to Participate."
- In October 2026, the U.S. House Committee on Rules published updated guidelines for participation in the program.
- If 10 percent of Pennsylvania's eligible taxpayers donate in 2027, $700 million in donations will flow to Pennsylvania students in the first year, with expectations that the FSTC will grow to more than $3.5 billion in subsequent years

HOW DOES THE FEDERAL SCHOLARSHIP TAX CREDIT WORK?

- Schools and SGOs will fundraise scholarship funds from individual (non-corporate) donors with an IRS tax liability.
- Donors in all 50 states will be able to donate a maximum of $1,700, with married couples able to donate up to $3,400 annually when each spouse donates separately to the SGO of their choice. In return, they receive a non-refundable 100 percent dollar-for-dollar tax credit when filing annual taxes with the IRS.

Eligible students will apply to their school or through an SGO and receive a scholarship for qualified education expenses.

WHO IS ELIGIBLE IF PENNSYLVANIA PARTICIPATES?

Eligible Students

- Electing to participate in the FSTC from the program's onset will provide millions of dollars in scholarships to Pennsylvania kids starting in 2027.
- Eligible K–12 students from households with incomes up to 300 percent of the median gross income level by county, as determined by the U.S. Department of Housing and Urban Development.
- There are 40 different income levels across Pennsylvania's 67 counties, with the maximum being $368,100 for families residing in and around Philadelphia.
- Nearly 90 percent of Pennsylvania's K–12 students qualify based on income.
- FSTC scholarships will be available to kids attending all types of schools: private, charter/cyber charter, career technical, public, and other schools.

- Public school students will apply for scholarship funds through their school district's Educational Improvement Organization (EIO).
- Non-public school students will apply via one of Pennsylvania's established scholarship organizations.
- Students can use the funding for tutoring, extended day programming, tuition, fees, books, school supplies, computer equipment, and special-education expenses.
- Moreover, eligible recipients will be able to stack the federal tax-credit scholarship with other forms of financial aid, such as Pennsylvania's Educational Improvement Tax Credit (EITC), Opportunity Scholarship Tax Credit (OSTC), the Economically Disadvantaged Schools (EDS) component of EITC, and private scholarship awards.
- Notably, demand for Pennsylvania's tax-credit scholarship programs outpaces supply. Caps in the 2023–24 school year denied 69,000 applications—electing to join the FSTC could help bridge this gap.

Eligible Donors

- Individual donors with an IRS tax liability will be able to donate up to $1,700, with married couples able to donate up to $3,400 annually when each spouse donates separately through one of Pennsylvania's established scholarship organizations and receive a 100 percent, non-refundable federal tax credit annually.
- Any participating SGO in the United States may receive donations and award scholarships. Donors living outside of Pennsylvania may donate to SGOs in the Keystone State.
- Existing individual donors to EITC, OSTC, and EDS may also donate and receive a tax credit through the federal program but must donate to each program separately.
- Donations to *Pennsylvania's* tax-credit scholarship programs are deductions from donors' state tax liability, while donations to the *federal* scholarship program will qualify as a credit against donors' federal tax liability.
- The FSTC legislation, as passed, currently prohibits corporate donations.

Eligible Scholarship Organizations

- The federal tax-credit scholarship will use SGOs to allocate K–12 scholarships to students attending private, charter/cyber charter, career technical, public, and other schools.
- Each SGO will determine the scholarship amount to award qualifying students.
- Public school districts will accept donations and award scholarships through more than 120 public school district Educational Improvement Organizations (EIOs).
- Non-public schools will accept donations and award scholarships through one of Pennsylvania's more than 200 established scholarship organizations.

- EIOs and SGOs must:
- Be a nonprofit entity exempt from tax per sections 501(c)(3) and 501(a) of the Internal Revenue Code and "is not a private foundation."
- Award scholarships to at least ten students and fund scholarships for more than one school.
- Conduct an annual third-party programmatic or financial audit.
- Prohibit the designation of donations for a particular student.
- Use 90 percent of donations for scholarships and 10 percent or less for administrative expenses.
- For nonprofits whose primary function is providing scholarships, the 90-percent threshold applies to only funds raised through the FSTC (not all organizational revenue) and can be kept in a dedicated or restricted account.

FREQUENTLY ASKED QUESTIONS

Q1. Does the FSTC program take money away from public schools?
A1. No, the federal scholarship does not negatively impact public school funding.

- FSTC participation is separate from and does not impact state public education funding.
- In fact, Pennsylvania public schools can participate in the program, which has uncapped revenue potential. The FSTC relies on private donors, allowing them, as taxpayers, to direct donations to schools of their choice, whether public, private, charter/cyber charter, career technical, or other schools.
- The FSTC is a federally administered program that does not utilize state dollars and is free for states to participate.

Q2. Will participating private schools be subject to additional government regulations?
A2. No, participating schools will continue to operate as normal because program funding derives from private donors.

- The religious liberty of schools with students receiving FSTCs will remain intact. Because the program is incorporated into existing tax law, religious protections within the U.S. tax code protect the religious liberty of participating organizations.

Q3. Who administers the program? The state or the federal government?
A3. The IRS and U.S. Treasury will oversee the program.

- Because the U.S. Treasury and IRS will administer the program, neither the Pennsylvania Department of Education nor the U.S. Department of Education will have oversight.

Q4. When can donors begin participating, and when will they receive the tax credit?
A4: Beginning in 2027, donors can make their first annual donation.

- Donors will receive their dollar-for-dollar tax credit in 2028 when filing their 2027 IRS returns.

- The law is permanent, without an expiration date. Donors will be able to give year after year, providing continuous financial support to K–12 students in Pennsylvania and across the United States.

Q5. When will students begin receiving scholarships?
A5. As soon as SGOs receive donations in 2027, they can begin administering scholarships.

- The program will be brand new in January 2027, and expectations for FSTC's initial year are that most scholarship awards will apply to the 2027–28 school year.