

**SCHOLARSHIP TAX CREDIT**

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**TOPLINE:** The One Big Beautiful Bill (OBBB) allows a \$1,700 tax credit for contributions individuals make to (nonprofit) scholarship granting organizations (SGOs) that help fund K-12 educational expenses.

**BACKGROUND:** Total spending on public K-12 education is [approaching \\$1 trillion](#) per year. Most of that funding comes from state and local governments and is reflected in higher property taxes across the United States. Most public schools aren't starving for resources. Census estimated that nationwide, public school funding averaged nearly [\\$16,000](#) per pupil, *as of 2022*. According to Pew estimates, the federal government covers about [13.6%](#) of the cost of K-12 education nationally, including programs like school lunch and breakfast. However, the federal government has used those funds to exert outsized influence on local public-school curricula. Educational outcomes, like [reading](#) test scores of public school students have dropped considerably in the past decade, while [homeschooled](#) students and students in [private schools](#) have overachieved. This has helped spark the school choice movement.

**How the Scholarship Tax Credit Works:**

- Beginning in 2027, individuals will be able to claim the non-refundable [Scholarship Tax Credit](#) for up to \$1,700 contributed to qualifying SGOs.
- It allows a 100% dollar-for-dollar offset of taxes up to the \$1,700 contribution limit, but it can't be used to reduce taxes below \$0.
- States must voluntarily elect to be covered under the Scholarship Tax Credit.
- Each year, covered states must submit a list of qualifying SGOs in their state.
- SGOs must use 90% of their income toward qualifying K-12 scholarships.
- Scholarship funds must be used for K-12 expenses including tuition, fees, tutoring, books, special needs services, books, supplies, and certain other expenses.
- Scholarships may not go to students in households making more than 300% of the median area income.

**Why It Matters?**

- 100% tax credits don't drive thoughtful giving, as donations can be fully offset.
- Allowing governors to list organizations that qualify as SGOs gives them power to control which private educational organizations succeed or fail.
- JCT estimates the Scholarship Tax Credit will offset [\\$26 billion](#) in taxes in 7 years.

**Where Can I Find the Changes?** OBBB Section [70411](#); [26 U.S.C. § 25F](#).

**BOTTOMLINE:** Many public schools are broken but throwing federal money at private K-12 options risks breaking the educational options that have been working best.

