SCORE State Collaborative on Reforming Education

The Federal Scholarship Tax Credit

An Opportunity to Support Student Success in Tennessee

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Beginning in 2027, Tennessee will participate in a new program that could create a significant new source of funding for K-12 students and families. Known as the Federal Scholarship Tax Credit (FSTC), the program allows taxpayers to receive a dollar-for-dollar federal tax credit when they contribute to approved nonprofit scholarship granting organizations (SGOs), which then provide scholarships to eligible students. Given the potential scale and ability to support a broad range of education expenses, the program has important implications for students in a variety of school settings, including traditional public schools, public charter schools, and private schools.

As Tennessee begins implementation of the program, it is important to consider how the FSTC can best support student success. The following overview explains how the program works, who is eligible, and what implementation could mean for students.

HOW DOES THE FEDERAL SCHOLARSHIP TAX CREDIT WORK?

The FSTC was created in 2025 as part of the One Big Beautiful Bill Act and will take effect on Jan. 1, 2027. The program is optional for states, and Tennessee has opted in.

The program connects three primary participants:

- **Taxpayers** who make eligible cash contributions to approved SGOs and may claim a federal tax credit of up to $1,700 annually (up to $3,400 for married couples filing jointly)
- **Scholarship granting organizations** that collect contributions and award scholarships for qualified K-12 educational expenses
- **Eligible students and families** who apply to participating SGOs for scholarships based on the programs and services those organizations offer

WHO IS ELIGIBLE TO RECEIVE A SCHOLARSHIP?

Under the FSTC, scholarships may be provided to a K-12 student who is:

- Eligible to enroll in a K-12 public school
- A member of a household whose income is not greater than 300% of the area median gross income

Importantly, students attending a variety of school types, including traditional public schools, public charter schools, and private schools, are eligible. Qualifying families can apply to any participating SGOs based on the services and scholarships those organizations provide. Current estimates show that over 70% of K-12 students in Tennessee could be eligible to receive a scholarship under the FSTC.[1]

WHAT CAN SCHOLARSHIP FUNDS BE USED FOR?

One of the most important aspects of the FSTC is the range of educational expenses the scholarships may support. Under the law, scholarship funds may be used for qualified elementary and secondary education expenses, including:

- Tuition and fees
- Academic tutoring
- Curriculum, books, and instructional materials
- Special needs services
- Room and board
- Uniforms
- Transportation
- Supplementary items and services (including extended day programs)
- Computer technology, internet access, and related services

WHAT IS A SCHOLARSHIP GRANTING ORGANIZATION?

SGOs are the nonprofit organizations responsible for administering the program. They receive eligible taxpayer contributions, establish scholarship programs, and distribute funds to eligible students for approved educational expenses. To qualify under the FSTC, an SGO must:

- Be a 501(c)(3) organization
- Spend at least 90% of qualified contributions on scholarships
- Serve at least 10 students who attend more than one school
- Ensure scholarship funds are used for approved educational expenses

SGOs design their own programs, determining which services to provide, which education service providers to partner with, and which students to prioritize.

As SGOs are created under the FSTC, the Tennessee Department of Education is responsible for certifying and maintaining an updated list of SGOs in the state. Tennessee taxpayers will be able to choose which approved SGO receives their contribution. States have until Feb. 15, 2027, to submit their list of qualified SGOs for 2027 participation.

THE OPPORTUNITY AHEAD FOR TENNESSEE

The FSTC creates a new mechanism for directing private dollars toward a broad range of education opportunities for students. As a result, the program has the potential to support students in important ways, from tutoring and summer learning to advanced coursework and transportation.

While the framework for the FSTC is established in federal law, implementation decisions will shape its impact in Tennessee. What types of SGOs will emerge? Which student needs and educational services will they prioritize? How many taxpayers will choose to participate? And how effectively will scholarship dollars help students access educational opportunities and supports?

The answers to these questions will shape the long-term impact of the FSTC. For Tennessee, the opportunity is to build a student-centered approach to implementation. Ultimately, the program's success will depend on whether it expands students' access to the supports and opportunities they need to succeed.

1 Federal Scholarship Tax Credit Calculator, Bipartisan Policy Center