# Implementing the Federal Scholarship Tax Credit to Maximize Supports for Public School Students

## Considerations for State-Level Leaders

September 24, 2026 (updated November 16, 2026[1])

This document summarizes practical considerations, decision points, and strategies that state leaders in participating states may want to consider as they contemplate how to implement the new federal scholarship tax credit (FSTC)[2] in ways that align with state goals, maximize supports for public school students (particularly those most disadvantaged), and minimize risks to public education. The One Big Beautiful Bill Act (OBBBA) established the FSTC, a new tax credit that could have significant implications for public education in states that choose to participate. Beginning in 2027, taxpayers in any state can receive a dollar-for-dollar credit on their federal income taxes for up to $1,700 ($3,400 for married couples filing jointly) each year in contributions to Scholarship Granting Organizations (SGOs) located in states that opt in. The SGOs will fund scholarships for eligible students to support qualified education expenses related to enrollment in a public (including charter), private, or religious school. Given that there are over 100 million federal taxpayers each year and there is no overall funding cap on the tax credit, over time, it is theoretically possible for the FSTC to raise billions of dollars in contributions. The U.S. Department of the Treasury (Treasury) estimates that more than 11 million taxpayers will donate $26 billion annually. (For scale, Title I, which is the largest federal investment in elementary and secondary education, was funded at just over $18 billion in FY2026.) While not an education program, the FSTC may end up operating like an education program in the states where it is implemented and will present states with significant new policy decisions, including whether or not to opt in each year.

The FSTC was enacted primarily to redirect income tax payments that would otherwise go to the federal

### THIS DOCUMENT IS FOR...

**States that have decided to opt into the FSTC**
This document is not intended to encourage or support states in deciding to opt into or out of participating in the FSTC. Rather, for states that have already decided to opt in, it provides practical considerations, decision points, and strategies to maximize supports for public school students and minimize risks to public schools.

**State-level leaders**
Throughout this document, "state" is used broadly to include state-level leaders, both within and outside of government, such as government agencies, advocacy organizations, philanthropic partners, and organizations serving as statewide SGOs and statewide service providers.

[1] This resource has been updated to reflect developments following its original publication, namely the proposed regulations described in footnote 5.

[2] Congress did not give this new tax credit a specific name. As a result, it is referred to by many different titles by different speakers, including the "federal scholarship tax credit" or FSTC (as we use here), the Education Freedom Tax Credit or EFTC (as school choice advocates sometimes use), and §25F (which refers to the new part of the federal tax code for the credit). We use FSTC because it is clear, descriptive, and often used by the U.S. Department of the Treasury, which Congress charged with implementing the new credit. Throughout the document we use related terminology that matches the statute to the extent practical, such as using "scholarship" to describe the funds students receive.

government to instead go to private school students to help fund their tuition, but Congress explicitly made public school students eligible for taxpayer-funded scholarships as well. Although the statute enables the FSTC to fund public school students, it could pose significant risks to public schools.[3] These risks include the expansion of privatization and the use of public funds for private and religious education, which may negatively impact resources for public schools. However, there is also an opportunity for participating states to use the FSTC to significantly expand the ecosystem of education services and opportunities to help meet the needs, interests, and abilities of public school students in a manner that seeks to minimize the risks to public schools. The extent to which the FSTC maximizes supports for public school students and minimizes risks to public schools will largely depend on the degree of intentional, coordinated actions within each participating state.

Although OBBBA names only a very limited role for state governments – primarily making the opt-in decision and submitting a list of eligible SGOs – there are many additional ways in which state agencies and other statewide actors can shape implementation. The role of "states" contemplated here encompasses more than state government officials. This document includes actions that can (and in some instances must) take place by the many state-level leaders outside of government who will need to intentionally coordinate or support action across the state to develop and implement a strong program. In other words, this document is for anyone working on implementation of the FSTC at a statewide level – particularly through coordinated action – including leaders in state governments, advocacy organizations, philanthropic partners, and organizations serving as statewide SGOs and statewide service providers.[4]

The document is not prescriptive because there is no one-size-fits-all approach that is appropriate for states across the nation. Instead, it provides a set of practical considerations, decision points, and strategies that states can use to align implementation to existing state goals, intentionally increase opportunities for public school students, and attempt to minimize risks for public education. Additionally, partly because the regulations from Treasury that will govern the FSTC have yet to be finalized and additional guidance is still expected,[5] these considerations will necessarily evolve over time as additional information becomes available and lessons are learned from early implementation in participating states.

[3] Throughout the document, references to public schools and school districts include charter schools.

[4] This document has been prepared for informational purposes only and is not legal advice. This information is not intended to create, and receipt of it does not constitute, an attorney-client relationship. Readers should not act upon this information without seeking professional counsel.

[5] Treasury published proposed regulations on October 2, 2026 that are expected to govern the FSTC for 2027 and will remain in effect until Treasury issues final regulations, which are unlikely to go into effect before 2028. Additionally, Treasury is expected to publish guidance on qualified expenses (and perhaps the definition of "school") late in 2026.

## OVERVIEW OF THE FSTC

The FSTC statutory language in OBBBA lists key requirements of the tax credit. Key elements specified in the statute include:

- Each governor (or other state official designated under state law) must choose each year for the state to participate in the tax credit and provide Treasury with a list of eligible SGOs in the state to which taxpayers can donate and receive the federal tax credit.
- SGOs are nonprofit organizations (excluding private foundations) that spend at least 90% of income on scholarships and provide scholarships for 10 or more eligible students who do not all attend the same school.
- Eligible students are members of a household with income less than 300% of the area median gross income[6] and are eligible to enroll in public elementary or secondary school in the state (though they need not be enrolled in public school).
- Scholarships can be provided for any amount but must be used only for qualified expenses, which the statute defines by cross-referencing the existing federal Coverdell[7] education savings account program, which names the following as qualified education expenses:
    - tuition, fees, academic tutoring, special needs services, books, supplies, and other equipment in conjunction with enrollment or attendance 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 in conjunction with enrollment or attendance, and
    - purchase of any computer technology or equipment or internet access and related services used during any of the years in school.

See *A Primer on the OBBBA Federal Scholarship Tax Credit: Charting a Possible Path to Support Public School Students* for an overview of the legislation and a summary of areas that will shape the FSTC.

See *Unpacking Treasury's Proposed Regulations for the Federal Scholarship Tax Credit* for a deep dive into the most significant provisions in the proposed regulations that will affect the implementation of the FSTC.

[6] In the introduction to its proposed regulations, Treasury estimated that 95% of elementary- and secondary-aged students would likely meet this household income requirement.

[7] The FSTC statutory language in OBBBA cross-references only section 530(b)(3)(A).

## CONSIDERATIONS FOR STATE-LEVEL LEADERS

Although much of the FSTC implementation will play out at the local or individual level (e.g., between a donor and an SGO, or between a student, an SGO, and a school or provider), state-level actors have an opportunity to help shape and inform how the FSTC is implemented, including creating statewide systems and opportunities that can support local leaders and streamline day-to-day implementation. Though not intended to be a comprehensive checklist, the considerations and examples provided here aim to illustrate the many opportunities state leaders have to develop and shape the program.

For ease of navigation, the document is organized into four overarching sections, each with a number of considerations to attend to within it. There are important connections across sections and among considerations, as decisions about any one part of the document likely will relate to and inform others. Within each section, items are generally in the order state leaders may encounter them during implementation; however, states may consider items in any order.

Each entry in the table of contents below is a hyperlink that will navigate to the corresponding section or consideration.

<table>
<tr><th colspan="3">1. Set a Goal and Strategy to Support Public School Students</th></tr>
<tr><td colspan="3">A. Develop a statewide theory of action<br>B. Establish a coordinating group and identify a lead coordinator<br>C. Develop a roadmap for implementing the FSTC<br>D. Plan for continuous improvement</td></tr>
<tr><th>2. Align State Government Policies and Practices</th><th>3. Support Infrastructure for SGOs, Providers, Districts, and Families</th><th>4. Develop Communication Campaigns and Incentives</th></tr>
<tr><td>A. Formalize opt-in (or opt-out) decisions<br>B. Develop a process for regulating, approving, and monitoring SGOs<br>C. Support the verification of student eligibility<br>D. Review the state’s definition of “elementary or secondary school"<br>E. Review the state’s rules and guidance on what eligible items and services must or can be “required or provided by” schools<br>F. Provide guidance on qualified expenses for scholarships<br>G. Establish a process for collecting and reviewing data<br>H. Establish a system to monitor and prevent waste, fraud, and abuse<br>I. Protect public schools against negative funding impacts</td><td>A. Support an ecosystem of aligned SGOs<br>B. Develop or support the development of the infrastructure to streamline donations for public school students<br>C. Develop or support the development of the infrastructure necessary to ensure scholarships are distributed only to eligible students for qualified expenses<br>D. Support the capacity of service providers to interface with the public school system and meet increased demand for services<br>E. Support the capacity of public schools and districts to serve as leaders and drivers of leveraging FSTC scholarships to meet the needs of public school students</td><td>A. Help the public understand the FSTC<br>B. Raise awareness for school and district leaders about the FSTC program<br>C. Identify and elevate SGOs that align with the state’s theory of action<br>D. Incentivize and streamline donations to SGOs that align with the state’s theory of action<br>E. Promote public student awareness and participation in the FSTC</td></tr>
</table>

## SECTION 1: Set a Goal and Strategy to Support Public School Students

Implementing the FSTC to benefit public school students will require a clear vision, coordinated action, and continuous improvement. A key first step is to set a comprehensive vision for how the FSTC will operate as a program in the state, which can clarify for a wide array of audiences how the FSTC supports existing education goals and provide all state-level leaders with a north star for implementation and policy decisions. Coordinating key actors from across the state helps to ensure implementation is aligned, timely, and informed by the community, and an intentional focus on continuous improvement provides opportunities to enhance alignment with the needs of public school students and strengthens implementation as the program grows.

### A. Develop a statewide theory of action

States will need to develop a clear theory of action that articulates how the FSTC will operate in a way that aligns with the state's existing education goals and priorities. This may include articulating clear goals, values, principles, objectives, and strategies that provide a north star for the development and operation of the program in the state. These may be grounded in existing education priorities, including strategic plans, portraits of a graduate, or related policy initiatives. For example, a state may express a clear commitment to ensuring that its program:

- prioritizes providing support for public school students in ways that reduce existing gaps in resources and opportunities (e.g., students from low-income households or in schools identified for Comprehensive Support and Improvement); and
- can advance specific state education priorities (e.g., promoting college and career readiness, closing achievement gaps, increasing early literacy, expanding enrichment) through evidence-based actions.

States should identify key strategies that would advance these goals, such as ensuring there are statewide SGOs that prioritize students furthest from opportunity or growing the ecosystem of high-quality enrichment programs in underserved areas. States may also consider articulating what type of role they will play and what decisions and actions they anticipate will take place on a statewide basis (rather than local) as part of the theory of action. States should consider carefully who is in the best position to develop this theory of action. Depending on governance structures and existing relationships, it may make sense for this work to be led by a specific office (such as the governor's office) or a group of state government agencies. In other states it may make more sense to be developed by a cross-sector group, or it could be developed as part of the working group described in 1B.

- *States should develop a theory of action that clearly describes how the program supports the state's goals for education and clarifies the state's role in order to facilitate aligned action and provide a north star for the many decisions that will arise during the program's design and operations.*

### WHAT THIS COULD LOOK LIKE

The existing P-20 coalition in the state leads efforts to look across its existing mission statement, the state Department of Education's strategic plan, and district portraits of a graduate to identify key ways the FSTC can support the state's education efforts. The coalition then uses this information to develop a theory of action for implementing the FSTC. Because many of the portraits of a graduate include an emphasis on college and career readiness, the theory of action includes a strategy for ensuring every district has a partnership with an SGO that provides scholarships for fees and transportation expenses related to apprenticeships and dual enrollment programs. Additionally, because the P-20 coalition has committed to addressing student achievement gaps between the state's wealthiest and least wealthy districts, the theory of action includes a strategy to ensure there is a statewide SGO that prioritizes scholarships for students from low-income households or in high-poverty schools.

**B. Establish a coordinating group and identify a lead coordinator**

The FSTC is multifaceted, and effective implementation will require coordinated action from many players. By creating structures to promote coordination, such as one or more dedicated working groups, state leaders can convene relevant actors, help to operationalize the state's theory of action, and lead coordinated efforts to advance the use of FSTC funds to support public school students across the state. Who convenes the working group may vary depending on state context, resources, and existing roles or relationships. The convener may or may not be the same group that developed the theory of action discussed in 1A. The working group should be comprised of representatives from key stakeholder groups aligned in the goal of maximizing opportunities for public school students, including for example:

- relevant state agencies (e.g., governor's office, PK-12 and postsecondary education agencies, agencies that oversee charitable organizations, agencies responsible for taxation, attorney general's office, state legislative bodies),
- educators (including school, district, and, where applicable, union leaders),
- advocacy organizations,
- philanthropy,
- SGOs (existing or potential),
- service providers (e.g., those that provide tutoring, before-, after-, and summer-school education, and other items and services that align with state goals),
- business leaders, and
- community members (including students, parents, and families).

Given the breadth of the work and the multiple workstreams that may emerge, identifying at least one point person (a lead coordinator) with sufficient capacity and legitimacy can ensure the work stays aligned and meets necessary timelines. Leveraging philanthropic support may be helpful (or necessary) to provide the capacity to convene and advance the working group(s) and staff lead coordinator

position(s). The working group may be charged with developing a plan for how the program will operate in the state, described further in 1C below.

- *States should develop a cross-stakeholder working group with a dedicated lead to coordinate efforts to advance the use of FSTC funds to support public school students.*

### C. Develop a roadmap for implementing the FSTC

Developing a clear roadmap can articulate what it will take to implement the theory of action described in 1A and document the coordinated action needed to channel FSTC funds to maximize support for public school students in a way that addresses wealth and opportunity gaps. Such a roadmap, which may be developed by the cross-stakeholder coordinating group described in 1B, could include key actions and tasks, a timeline for implementation, and clear roles and responsibilities, as well as identifying where additional capacity and resources may be needed along with possible risks and associated mitigation strategies. It may also document the needed policies, infrastructure, and communications, which may be informed by the considerations included in this document. Given the tight timelines for states that are participating in 2027, this may include considerations of the most time-sensitive actions or the development of a phased approach. For example, since states must submit an SGO list to Treasury by February 15, 2027, the roadmap may prioritize developing a process for approving SGOs (see 2B) and supporting an ecosystem of SGOs that align with the state's theory of action (see 3A). The working group may want to begin with a landscape scan to understand what resources currently exist in the state – particularly existing or potential SGOs and service providers – to help it create plans aligned with the theory of action to address any gaps (see 3A and 3D). Additionally, the development of the roadmap should include a clear process for engaging stakeholders, including mechanisms for collecting and addressing feedback.

#### ENSURING ELIGIBLE STUDENTS HAVE EQUITABLE ACCESS TO FSTC RESOURCES

This program relies on individual contributions from donors with sufficient tax liability to qualify for the tax credit. In many states this could mean more individuals in wealthier communities are willing and able to make donations than in lower-income communities. Without intentional policies and structures in place, this wealth gap could exacerbate opportunity gaps between public schools in high- and low-income communities. Since they are relevant to so many of the considerations included in this document, opportunities and potential strategies for addressing these critical concerns are woven throughout.

- *States should develop a roadmap for implementing the FSTC in a way that aligns with the state's theory of action, takes into account time-sensitive decisions, and incorporates stakeholder feedback.*

### D. Plan for continuous improvement

Planning for continuous improvement will be especially important for a state's program given that the FSTC is new and the infrastructure built to implement it is likely to grow and change over time, and because the regulations that govern the FSTC and the guidance that informs it may continue to evolve in the coming years. States should develop a plan to collect and review a wide variety of inputs, outputs, and outcomes data and feedback on how the program is being implemented within the state (including from students and families, educators, school and district leaders, SGOs, service providers, donors, and relevant state agencies). The plan may initially focus more narrowly on critical success metrics for each step of the theory of action, but it could expand over time to incorporate more information, including rigorous evaluations of implementation and outcomes. As best practices and lessons learned from within the state and from across other states emerge, they can be adopted or adapted through these improvement cycles. This plan might include, for example, establishing clear data metrics and the data collections necessary to monitor them (see 2G), identifying research and evaluation partners, conducting scheduled listening sessions, creating mechanisms for collecting written feedback, and/or creating or joining communities of practice. States may find it helpful to maintain or reconvene some subset of the working group contemplated in 1B above to review information and make recommendations at regular intervals – particularly given every state's authority to elect whether or not to participate in the FSTC (and to recognize eligible SGOs) each year.

- *States should develop continuous improvement mechanisms and ensure there is dedicated capacity to regularly review and update the state's theory of action, roadmap for implementation, and other program resources to ensure they consistently reflect the state's best thinking.*

## SECTION 2: Align State Government Policies and Practices

This section considers the many policies and practices specifically within the purview of a state's government that can shape the program design and support successful implementation. Though all of the actions are important to consider, they may vary in scale and resources needed. Some could require changing existing policies or laws; creating new systems, tools, or resources; or establishing new roles, responsibilities, or teams. Depending on a state's structure, these activities may fall under the scope of, or be delegated to, any combination of the governor's office, PK-12 and postsecondary education agencies, agencies that oversee charitable organizations, agencies responsible for taxation, attorneys general, state legislative bodies, or others.

### A. Formalize opt-in (or opt-out) decisions

Each governor (or other state official designated under state law) has the authority and responsibility to decide whether to opt in to the FSTC each year. If they opt in, they must also provide Treasury with a list of eligible SGOs in the state (see 2B below for more on approving and regulating SGOs). States should consider developing specific processes for deciding if and when to make opt-in or opt-out decisions, including what data and feedback will be used to inform their decisions, and how it will be collected and reviewed. Additionally, the proposed regulations, which Treasury published on October 2, 2026, and which are expected to govern the program for at least 2027, require states to also certify that each SGO satisfies all statutory and regulatory requirements as part of the SGO list submission. The process for electing to opt in and submitting an SGO list is enumerated in the proposed regulations, though specific logistical information is still forthcoming (e.g., how to access the portal that will be used to collect the SGO list). The proposed regulations provide specific timelines and processes for opting in and submitting an SGO list, which differ in 2027 and in future years.[8] A state that does not submit all required information by the required deadline(s) will be considered opted out for the calendar year (see text box below for details).

Given the late timing of the proposed regulations and the still forthcoming additional guidance, states intending to opt in may decide they do not have the information and infrastructure necessary to be ready to opt in for 2027. These states may consider instead waiting to do so until at least 2028 to allow for additional time to attend to the many considerations necessary to develop a coordinated approach aligned with their theory of action.

- *A state must determine whether or not to participate annually and, if it does, submit a list of eligible SGOs and all required certifications to Treasury by the deadline each year for the FSTC to be operable in the state.*

[8] These deadlines could be especially consequential in election years where opt-in decisions may be made by outgoing governors before the end of their term or, in some states, newly inaugurated governors on their first day.

### Proposed Timelines and Processes for Opting In

- **For 2027 only**: To participate in the FSTC in 2027, a state must -
  - submit an advance election via Form 15714 on or before January 1, 2027, and
  - submit an SGO list on or before February 15, 2027.
- **For all other years**: Except for the first year for which the state opts in, a state may either -
  - make its election to opt in at the same time it submits an SGO list for that year, which must be completed between October 1 of the preceding year and January 1 of that year, or
  - submit an advance election between January 2 and September 30 of the preceding year and submit an SGO list between October 1 of the immediately preceding calendar year and January 1 of that year.
- **For a state making its first election after 2027**: If a state does not opt in to participate in 2027, but chooses to participate in a future year, a state must -
  - submit an advance election between January 2 and September 30 of the preceding year, and
  - submit an SGO list between October 1 of the immediately preceding calendar year and January 1 of that year.

#### B. Develop a process for regulating, approving, and monitoring SGOs

Under the proposed regulations, a state may not "require SGOs to operate in a manner that is more restrictive" than the statutory and regulatory requirements—in other words, states may not set additional requirements specifically for SGOs such as what types of students, schools, or expenses an SGO selects for its scholarships. Any SGO that is located in a particular state, meets the federal SGO requirements, and has requested to be designated as an SGO must be included in the list of eligible SGOs that the state submits to Treasury as part of its opt-in process. To meet the definition of "located in" a state, an SGO must be authorized to do business in the state and comply with "generally applicable State laws and requirements for charitable organizations in the State, including provisions for transparency, accountability, and fraud prevention." States will need to develop a process to ensure potential SGOs meet these requirements, including a process and timeline for an organization to request to be designated as an SGO and to provide relevant documentation, and for staff to review and make determinations. As part of their administrative processes, states must require SGOs to "comply with application, documentation, and financial reporting requirements that are reasonably tailored to" ensure SGOs meet all statutory and regulatory requirements and to "[f]acilitate the prevention and detection of fraud or abuse, including the misuse of scholarship funds, such as through the duplication of scholarship awards to the same student for the same qualified elementary or secondary education expense" (see 2H for more on preventing waste, fraud, and abuse). Under the proposed regulations, the policies and procedures a state adopts for SGOs may be subject to federal review, and if Treasury discovers "a pattern of irregularities or noncompliance…may require a State to modify its procedures."

A state may also want to review its existing rules for organizations authorized to do business in the state, including rules specific to charitable organizations. There may be generally applicable rules that a state wants to consider expanding or adding, if not already established, to further align the program with the state's theory of action. For example, states may be able to require SGOs to adhere to generally applicable state laws related to protecting civil rights, prohibiting discriminatory practices, preventing waste, fraud, or abuse, or requiring transparency or data reporting. States should also develop processes for regularly collecting, monitoring, and reviewing information from SGOs (see 2G for more on this) to ensure that they continue to meet all requirements, including consequences for noncompliance, up to and including processes for removing an SGO from a state list, if necessary, or reevaluating a previously removed SGO.[9] There are also opportunities for states to identify and elevate those SGOs that align with a state's theory of action (see 4C).

- *States should develop clear procedures, aligned with the state's theory of action, for regulating, approving, and monitoring SGOs to ensure organizations operating in this capacity meet federal and state requirements.*

### C. Support the verification of student eligibility

Students are eligible to receive an FSTC scholarship if they are members of a household with income less than 300% of the area median gross income and are eligible to enroll in a public elementary or secondary school in the state. Income verification processes can be burdensome, especially for families with fewer resources, and, under the statute, SGOs are ultimately responsible for verifying that students meet these requirements before awarding them scholarships. Given that state agencies already have income verification policies and procedures in place to comply with other state and federal requirements, they may be well positioned to help streamline this process. They can provide guidance to help SGOs verify that students meet the income requirements while reducing or eliminating burdens for prospective students and their families – particularly with regard to students and families in greatest need. States should explore whether there are ways for them to efficiently confirm students' eligibility for SGOs while still complying with all applicable state and federal laws governing student and family privacy. States could also provide guidance on ways to identify students who may be automatically eligible to participate without separate income verification. The proposed regulations established categorical eligibility for students in foster care and for those with a household member participating in one of five federal means-tested programs: SNAP, TANF, WIC, SSI, and Section 8 housing.[10] For more on the infrastructure needed to support the verification of student eligibility, see 3C.

- *States should develop guidance, and where possible streamline processes in privacy-protecting ways, to support SGOs in verifying students' eligibility while minimizing burdens to students and families.*

[9] The proposed regulations require state removal procedures to include "due process" for the organization being removed from the SGO list.

[10] The proposed regulations would allow these groups of children to be deemed eligible without additional income verification.

### D. Review the state's definition of "elementary or secondary school"

The definition of "elementary or secondary school" may have significant implications for which expenses are eligible for FSTC funds and could vary from state to state. To define school, the proposed regulations incorporate by cross-reference the definition in the existing federal Coverdell education savings account program, which defines "school" as "any school that provides elementary education or secondary education (kindergarten through grade 12), as determined under state law." Assuming that Treasury ultimately defers to state law, a state definition of "elementary school" that, for example, includes prekindergarten (pre-K) could help to affirm that the cost of pre-K programs is an allowable "tuition" expense (if the public school system is not legally required to provide it for free) and for pre-K students to be eligible to receive scholarships for any of the other qualified expenses such as books, supplies, transportation, or supplementary services. Treasury has indicated that it intends to clarify the meaning of "school" in forthcoming guidance.

- *States should review their existing definition of "elementary or secondary school" to understand how it aligns with and reflects their theory of action and consider making revisions, if necessary, to strengthen alignment and maximize the opportunities for public school students to make use of scholarships.*

### E. Review the state's rules and guidance on what eligible items and services must or can be "required or provided by" schools

The statutory language requires that some of the qualified expenses FSTC scholarships can support, including room and board, uniforms, transportation, and supplementary items and services (including extended day programs), must be "required or provided by" a school. Although this topic was not addressed in the proposed regulations, Treasury may define or place limitations on these qualified expenses in future regulations or guidance. It may be helpful for a state to understand how these terms are already operationalized in the state and how that may intersect with FSTC implementation. For example, if a state *requires* schools to offer every student an opportunity to earn postsecondary credits while still in high school, it may help confirm that transportation to and from the postsecondary campus would likely be a qualified expense. Similarly, a state may want to articulate that a school may *provide* afterschool programs itself or through a partnership with a third party to help confirm that the cost of attending those programs is a qualified expense even if the program is not staffed by or located in the school. Since many services "provided by" schools are often provided through partnerships with third parties, specifically articulating the different models that can be used to provide services (such as a memorandum of understanding (MOU), partnership agreement, co-location, contract, vetted list, or individualized referral) may be useful. Any changes to what is "required or provided by" a school should be done thoughtfully, with attention to potential unintended consequences.

- *States should review their rules and guidance on what eligible items and services must or can be "required or provided by" schools and consider making revisions, if appropriate, to strengthen alignment with their theory of action.*

### F. Provide guidance on qualified expenses for scholarships

Although Treasury may further define qualified expenses in future regulations or guidance in ways that could shape FSTC interpretation, it may be helpful at the outset for a state to clearly communicate the types of expenses that are likely – based on the statutory language – to be eligible for scholarships. For instance, a state could provide a list of examples of the types of expenses that may fall under a specific category that the statutory definition includes, such as "fees" (e.g., advanced placement or college entrance testing fees, field trip costs, science lab fees, summer programs, senior fees) or "uniforms" (e.g., public school uniforms, specific clothing needed for science, art, or sports teams). States may consider opportunities to highlight or elevate uses of funds that align closely to their theory of action. For example, a state may choose to highlight evidence supporting the effectiveness of high-dosage tutoring if the theory of action calls for leveraging the FSTC to expand access to that type of academic support. States may also consider reviewing existing laws, policies, and guidance to ensure they are supportive of these uses (see, for example, the discussions of 2D and 2E above on the definitions of "elementary or secondary school" and "required or provided by").

Additionally, states should clarify that a public school may not charge students or accept funds from an SGO on behalf of a scholarship awardee for any items, services, benefits, or accommodations that the school is required to provide free of charge to students. For example, although "special needs services" is listed as a qualified expense in the statute, states should clarify that schools and districts remain responsible for providing students with disabilities a free and appropriate public education, including any services or accommodations required under the Individuals with Disabilities Education Act (IDEA), Title II of the Americans with Disabilities Act, or Section 504 of the Rehabilitation Act of 1973. No scholarship funds should be used for required services as included in the student's Individualized Education Program (IEP) or 504 plan. Any additional, but not required, special education evaluations or services a parent may wish to purchase could potentially be a qualified expense, but this should first be discussed with the school and district to ensure that they cannot be provided in the student's IEP services. Finally, any changes to existing costs or fee structures should be done thoughtfully and monitored regularly to ensure they do not reduce the funding provided to public school students or have unintended consequences for students who cannot or do not access FSTC funding.

- *States should develop (and update as needed), disseminate, and provide technical assistance on qualified expenses to maximize the use of FSTC scholarships in ways that align with their theory of action.*

### G. Establish a process for collecting and reviewing data

To meet their statutory and regulatory obligations, states will need to collect and review information from SGOs. States are required to collect the information necessary to ensure the organizations comply with state and federal requirements (see 2B above), including the prevention of fraud and abuse (see 2H below).[11] States will also receive information from the annual financial and programmatic audits SGOs are required to complete. Although states may be limited by the proposed regulations in *requiring* additional data from SGOs, there may be additional, or more frequent, information states want to *request* from SGOs, service providers, schools, or others to monitor program implementation, improve program transparency, and inform continuous improvement. For example, a state may want to collect the following types of data:

- programmatic (e.g., categories of students served or prioritized, types of qualified expenses covered),
- financial (e.g., donations received, scholarships awarded, state and local public education investments),
- participation (e.g., student demographics, participant satisfaction), and/or
- outcome- or access-related factors (e.g., student test participation or scores, graduation rates, enrollment and attendance rates).

In addition to clarifying what information will be collected, state processes should clearly articulate how the data will be collected, submitted, analyzed, and stored to ensure student privacy, data security, and compliance with relevant state and federal laws, including the Family Educational Rights and Privacy Act (FERPA). This document discusses many ways in which these data can be used to support and improve FSTC implementation, including continuous improvement (1D), regulating, approving, and monitoring SGOs (2B), monitoring and preventing waste, fraud, and abuse (2H), and identifying and elevating SGOs that align with the state's theory of action (4C). Groups of participating states may also be interested in collaboratively developing and adopting shared indicators, definitions, and models to allow comparability of data across states.

- *States should develop processes for collecting, reviewing, and, where appropriate, publishing data to maximize quality, prevent waste, fraud, and abuse, ensure transparency, and promote effective program administration, while attending to data-privacy and security requirements.*

[11] Although "waste, fraud, and abuse" are discussed in the preamble, the proposed regulations themselves refer only to fraud and abuse, omitting "waste."

### H. Establish a system to monitor and prevent waste, fraud, and abuse

To help detect and prevent waste, fraud, and abuse, the proposed regulations would require each SGO to obtain an annual financial and programmatic audit and provide the results to the state. Under the proposed regulations, a state would be required to review the annual audits as part of its process for ensuring organizations meet the requirements to be an SGO and may also use the results as part of its procedures for removing SGOs from the state list. At a minimum, states will need to develop a process to collect, review, and act upon the information SGOs provide through these audits. The proposed regulations would also require states to require SGOs to provide information to "[f]acilitate the prevention and detection of fraud or abuse." This may require states to develop additional procedures to collect and monitor specific application information, documentation, or financial reporting requirements. States may also consider how they will detect and monitor service providers for potential signs of waste, fraud, or abuse. For example, states may need processes to ensure service providers actually exist, are authorized to do business in the state, and are providing the items and services ostensibly purchased with FSTC scholarships. Relatedly, the proposed regulations also include a requirement that SGOs may only pay a vendor directly if it "[h]as been verified as an appropriate provider of such services or items," but it is not clear who will provide this verification or how to determine what is "appropriate." This could be an opportunity for state or local leaders to help prevent waste, fraud, and abuse by providing SGOs operating in the state with a vetted list of verified providers that the SGOs can rely on in fulfilling this obligation.

Given the potential amount of donations flowing through these programs and the number of organizations that will likely be involved, states may consider requiring (to the extent permissible) or requesting additional information and developing additional processes for SGOs, providers, and/or participants to monitor and prevent waste, fraud, and abuse (see 2B, 2G, and 3C for related discussions).

- *States should establish a system to ensure program integrity and monitor, prevent, detect, and address waste, fraud, and abuse across the program.*

#### WHAT THIS COULD LOOK LIKE

The state attorney general's office hires two new employees to oversee monitoring and prevention of waste, fraud, and abuse in the implementation of the FSTC in the state. This team leads the development of a portal where SGOs and providers regularly submit programmatic, financial, and participant information, including required audits. SGOs submit, among other things, quarterly reports of the number and amount of scholarships awarded by school, student demographics, and qualified expense categories. Providers submit, among other things, the locations of service provided, the average number of hours each participant participated, and a copy of the affidavit from each recipient that they have not collected another scholarship for the same expense. The staff develop a process for reviewing the data, collecting more information when needed, and conducting monitoring visits when concerns arise. The staff also collaborate with other state officials managing the FSTC continuous improvement process.

### I. Protect public schools against negative funding impacts

If designed effectively, the FSTC has the potential to provide additional resources for students in public schools. However, there are also risks that could lead to negative effects on public schools, including a decrease in the local, state, and/or federal funding they receive in the future. The primary mechanism for this would likely be an increase in the number of students enrolled in private and religious schools as FSTC scholarships lower (or cover) the cost of attending those schools. If this shift is significant (including in any one location), it could decrease public school enrollment. Since most funding models for public schools are based on student enrollment, such a decline could reduce school budgets. To try to counter this risk, states could consider, for example, revising their funding models to protect public school funding from declines in enrollment commensurate with increases in private school enrollment, or smoothing any declines over multiple years. Additionally, it is important that states (including state legislatures) do not conflate the funds generated by the FSTC, which are optional charitable donations that may ebb and flow over time, with the durable public funding needed to operate public schools that serve all students. Scholarships, for example, will not fund schools' operational costs like facilities or core salaries and benefits, which are the most significant expense for schools' budgets and must continue to come from dedicated government resources. Without strategic efforts to mitigate long-term funding risks, the FSTC could exacerbate existing resource equity issues, lead to long-term disinvestments in public schools, and risk public schools being unable to provide necessary services to students.

- *States should develop proactive plans to protect against negative impacts of the FSTC on public schools, including making revisions to existing funding practices, if necessary. States should also monitor the impact of the FSTC on public school funding and ensure policymakers understand the ongoing budgetary needs of public schools in the state.*

#### WHAT THIS COULD LOOK LIKE

The state legislature passes a resolution committing to not including charitable donations in information used to make decisions about education funding because they know those donations may not be consistent or reliable. Additionally, in the next legislative session, the legislature considers an amended public school funding formula, implementing a "hold harmless" provision that continues to use the enrollment numbers from before the FSTC when implementing the formula in future years. The legislation requires detailed annual reporting to monitor and address any changes in school funding caused by factors related to implementation of the FSTC, including declines in public school enrollment commensurate with increases in private school enrollment.

## SECTION 3: Support Infrastructure for SGOs, Providers, Districts, and Families

Implementing the FSTC to benefit public school students will require building the infrastructure and capacity of SGOs, districts, public schools, and service providers – including their ability to partner with each other strategically and efficiently. Depending on various factors, including those outlined in Section 1 above, states will vary in the degree to which the FSTC infrastructure is built on a statewide basis or at the regional or local level, perhaps centered around individual school districts. Regardless, state leaders will have a role in helping ensure the development of a coordinated, high-quality infrastructure that is ready to raise, accept, and make good use of donations, including by streamlining processes, developing shared resources, and supporting the capacity of key partners. Note that the related infrastructure needed to communicate and encourage donations and participation to support public school students is addressed separately in Section 4 below.

### A. Support an ecosystem of aligned SGOs

SGOs are essential to implementation of the FSTC, but they are mostly new to the public education context since most existing PK-12 SGOs or SGO-like organizations operate in state-funded or privately-funded programs focused on private schools, such as education savings accounts or vouchers. Leveraging the FSTC to support public school students will require that all eligible students have access to SGOs that are set up for and committed to supporting public school students. In any particular state, the ecosystem of SGOs may include some combination of local SGOs, statewide SGOs, and/or national or multi-state SGOs operating in the state on either a statewide basis or within particular communities. Even among those operating models, there may be a variety of approaches, with some SGOs focused on aligning with specific school districts (such as those operated by education foundations that already partner closely with their districts), others on serving students in a particular geographic region (or more narrowly, in a particular feeder pattern within a district), and others on providing public school students with access to particular qualified expenses (such as an SGO focused on high-dosage tutoring statewide). States should consider how each type of SGO may align with and support their theory of action and develop a vision for their ideal SGO ecosystem. For example, local SGOs in lower-resourced communities may have a harder time raising donations, and students in that community may have greater needs. States may want to support SGOs that serve such communities or statewide SGOs that prioritize scholarships to students from low-income families (see 4C). Additionally, a state may want to ensure that every district has at least one SGO partner, or that, for example, every student has access to an SGO that focuses on work-based learning or pre-K opportunities. Mapping where existing SGOs will operate, which students they will support, and what qualified expenses they will fund can help the state identify any potential gaps. Since numerous SGOs of varying types may emerge within a state and change over time, it will be important for the state to both stay updated on the current landscape and adjust plans along the way.

States may also consider strategies for addressing any gaps in existing SGO coverage, including their role in supporting the development of statewide SGOs. For example, a philanthropic partner may help to identify existing nonprofit organizations in the state that are well suited to serve as SGOs, including local community and education foundations, and offer technical assistance to a cohort of such organizations

to help accelerate their development. States may also consider providing guidance to nonprofits in the state to help them navigate the process of becoming an SGO. There may also be a role for state leaders to help SGOs operate efficiently and effectively. For example, states may provide technical assistance to help them navigate and comply with federal rules or accelerate state approvals, or may develop platforms, portals, or other technological resources that SGOs serving public school students can leverage. There are also opportunities for states to identify and elevate SGOs that align with a state's theory of action (see 4C).

- *States should develop a process for supporting the development, infrastructure, and operations of an SGO ecosystem aligned to their theory of action, including the development of one or more statewide SGOs, to ensure all eligible students have access to SGOs that are set up for and committed to supporting public school students.*

### WHAT THIS COULD LOOK LIKE

To align with the state's theory of action, a leading philanthropic group partners with a local education foundation to develop a new statewide SGO focused on supporting public school students. The education foundation develops a new 501(c)(3) organization to serve as the SGO and the leading philanthropic group funds staffing, a communications campaign, and the development of the technical infrastructure needed to manage the flow of donations and scholarships. The statewide SGO builds a donation page for each Intermediate School District (ISD) in the state – which allows resources to be collected and shared across a large geographical area. The statewide SGO regularly reviews data to understand how donations are flowing to different ISDs and groups of students and modifies policies and practices as needed.

**B. Develop or support the development of the infrastructure to streamline donations for public school students**

Generating revenue through FSTC-qualifying donations will require strategic, coordinated, and sustained work, including building and continuously improving new infrastructure. These might include shared platforms or portals that provide a "one-stop shop" for taxpayers to direct donations to particular SGOs, templates and example resources that under-resourced SGOs can adopt and adapt to their own use and other technologies that help streamline donations from taxpayers interested in supporting public school students. For example, states might provide technical assistance on how to implement promising revenue-generating strategies including, but not limited to, setting up payroll deduction systems that allow taxpayers to adjust their federal income tax withholdings so that they can make FSTC-qualifying donations without changing their take-home pay from each paycheck. (Specific strategies for how to communicate about the FSTC to taxpayers and how to incentivize donations are discussed in Section 4 below.) States may also consider the infrastructure needed to ensure lower-resourced communities have equitable access to scholarship resources. For example, a statewide SGO might be structured to allocate a portion of all donations to be used specifically for scholarships to students from low-income

families or to students attending schools in communities with fewer taxpayers who have at least $1,700 in federal taxes each year.

- *States should consider what infrastructure is most needed to streamline the donation process, for both donors and SGOs, and support the development of necessary resources.*

### C. Develop or support the development of the infrastructure necessary to ensure scholarships are distributed only to eligible students for qualified expenses

The proposed regulations include a number of provisions that explain how student eligibility for FSTC scholarships can be verified – including both direct income verification (e.g., reviewing pay stubs, tax returns, W-2s, and other select documentation) and categorical eligibility. A student may be approved for categorical eligibility if the student is in students in foster care or if a household member participates in one of five federal means-tested programs: SNAP, TANF, WIC, SSI, and Section 8 housing. The proposed regulations also include a safe harbor for students receiving scholarships for tutoring or special needs services at schools in certain low-income areas, but the safe harbor includes several requirements, including among other things that participating students are identified by independent professionals as needing the service and that the services meet appropriate quality standards. States may find value in identifying existing and/or developing new infrastructure to help streamline the eligibility verification process. This could include tools that would allow SGOs limited access to query existing state databases to confirm student eligibility, while maintaining student and family privacy. States could also support implementation of the low-income student safe harbor by, for example, developing and publishing quality standards for academic tutoring. (See 2C for other ways state policies and practices may intersect with this infrastructure to support verification of student eligibility.)

Additionally, the proposed regulations include a requirement that states collect and review information from SGOs to "[f]acilitate the prevention and detection of fraud or abuse, including the misuse of scholarship funds, such as through the duplication of scholarship awards to the same student for the same qualified elementary or secondary education expense" (see 2B and 2H). To meet this requirement, states may be interested in developing additional processes or infrastructure to streamline processes for affirming there is no duplication in scholarship awards. There is potentially a wide range of options for how this could be addressed, from simple student attestations to robust statewide databases. These resources or systems should produce accurate results to avoid providing scholarships to ineligible students, or multiple scholarships to a student for the same expense, and at the same time reduce barriers to accessing the FSTC, especially for students furthest from opportunity (see 2H for related discussions).

- *States should design and implement a plan to support the development of resources to streamline eligibility verification and avoid award duplication as much as possible.*

### D. Support the capacity of service providers to interface with the public school system and meet increased demand for services

Many of the FSTC-eligible expenses may involve parents directing funds to a student's school, such as for fees or school-run afterschool programs. Others will involve outside entities that provide services to FSTC scholarship recipients, such as for tutoring or offsite afterschool and enrichment programs. Some of these providers will be existing school or district partners, but others may be new providers without existing relationships, understanding of the local context, knowledge of the FSTC rules, or systems to effectively partner with public education systems to support students. Regardless, attending to the quantity and quality of service providers will become particularly important as implementation of the FSTC grows over time, whether statewide or in particular public school communities. States should provide tools and technical assistance to service providers interested in participating in the FSTC. This may include resources to ensure they understand the requirements of the FSTC, their responsibilities as service providers, and best practices for partnering directly with public schools and districts.

Additionally, depending on what expenses the scholarships are being used for, the demand for certain services may exceed the supply of existing service providers. States should consider if there is sufficient capacity to meet the needs of the state, particularly in areas that align with the state's theory of action. This may particularly be an issue in parts of states with fewer existing providers, such as rural areas. Mapping where existing providers operate, what eligible items and services they provide, and their capacity can help the state identify (and work to fill) any potential gaps. Since providers and their coverage and capacity may change over time, it will be important for the state to both stay updated on the current landscape and adjust plans along the way.

- *States should collect information about current and projected service provider capacity and the information they need to partner with schools and districts and develop strategies for filling any gaps.*

### E. Support the capacity of public schools and districts to serve as leaders and drivers of leveraging FSTC scholarships to meet the needs of public school students

As discussed in Section 1, states will differ in the degree to which the design and implementation of the FSTC takes place on a statewide basis. But under any state's approach, the role of districts, schools, and individual educators will be essential to maximize the FSTC's benefit to public school students and to mitigate its risks to public education. In addition to most qualified expenses requiring a connection to enrollment in a school, districts and their schools educate the students each day, maintain relationships with their families, manage partnerships with service providers, and, in many instances, act as the service providers for many of the FSTC-eligible expenses. Many of the considerations included in this state-level document will have similar relevance at the district level, where leaders must develop their own theory of action, coordinating team, and policies and processes. Wherever appropriate, states should provide districts, especially under-resourced ones, with easy-to-use models and tools to help jump-start effective implementation of the FSTC in ways that align with local priorities and student needs and interests. This technical assistance should also address how districts can mitigate any risks

associated with the FSTC, such as managing what may be an unpredictable funding stream, guarding against unintended consequences for federal, state, or local funding for public education, and protecting against waste, fraud, and abuse. States may also consider setting up a community of practice or other mechanisms to regularly convene districts and schools to share information and learn from one another.

- *States should provide resources and technical assistance to districts to build school and district capacity and help them design, implement, and improve their role in the FSTC.*

### WHAT THIS COULD LOOK LIKE

As part of the development of a statewide theory of action and roadmap, the team also develops process documents and templates that districts and schools can use to develop their own parallel resources. Superintendents and principals are not only included in state-level conversations, but they are also invited to specific conversations about opportunities to leverage the FSTC in their communities. These local leaders also can access technical assistance as they set up their own theories of action, coordinating groups, and policies and processes. This continues as an ongoing, resourced community of practice so local leaders can support and learn from one another. Educational Service Agencies could hire an FSTC coordinator (funded by a public-private partnership between the state and a local philanthropy) to help schools and districts develop and implement their plans, including supporting connections to SGOs and providers.

## SECTION 4: Develop Communication Campaigns and Incentives

The effort that goes into building a program to implement the FSTC can only be fruitful if the public knows about the program and their roles in it, especially the taxpayers making donations to take advantage of the tax credit and the public school students, families, and leaders navigating the scholarship process. To ensure that their programs are organized to maximize benefits for public school students, states must help develop broad communication strategies to raise awareness about the FSTC and create incentives for individual and organizational actions that support public school students.

### A. Help the public understand the FSTC

States should work to increase general awareness of the FSTC, so that individuals and organizations within the state can make well-reasoned decisions about whether and how to participate. A new tax credit with the potential to raise millions, or even billions, of dollars in new revenue, the FSTC is likely to generate a great deal of both attention and misinformation. Given the FSTC's legislative origins, many may be unaware that public school students are even eligible to receive scholarships or that the funds can be used for many things other than private school tuition. Taxpayers may be inundated with communications from SGOs seeking donations, and students and families will likely receive similar communications about applying for and using scholarship funds. It is important for the public to understand the FSTC and how it works. States should explain to taxpayers:

- the basics of the FSTC, including that they will be able to receive a tax credit up to $1,700 ($3,400 for married couples filing jointly) for donations made to SGOs that appear on the state's list;
- the difference between a tax credit for a donation to an SGO and the existing tax deduction for a donation to a general nonprofit organization;
- where to find information about SGOs that operate in the state, those that fund scholarships for public school students, and those most aligned with the state's theory of action (see 4C);
- the wide variety of uses for FSTC scholarships and how they can support a public school student's education; and
- which students are eligible to participate and how to apply.

➢ *States should help ensure the public has accurate information about the FSTC, whether through a dedicated FSTC website, mailers, social media, television and radio campaigns, or other means.*

### B. Raise awareness for school and district leaders about the FSTC

Although eligible students and families could participate in the FSTC regardless of how involved their school or district is by applying for a scholarship from any SGO operating in their state, there are many opportunities for public schools and districts to play a leading role in designing and implementing the FSTC in their community. This can range from helping students understand and connect to scholarship opportunities to collaborating closely with a local SGO to connect donors, students, and providers (including schools and districts and third-party providers) in ways that align with local priorities, needs, and theories of action. In addition to helping public schools and districts serve as leaders and drivers in

these ways (see 3E for more), states should raise the awareness of school and district leaders about the FSTC and how it can be used to support public school students. This could range from direct outreach and communication to schools and districts about the program to spotlighting success stories.

- *States should ensure that school and district leaders have accurate information about the FSTC and how it can be used to support public school students.*

### C. Identify and elevate SGOs that align with the state's theory of action

The proposed regulations do not allow states to set additional requirements for SGOs to be able to appear on the state's list submitted to Treasury and participate in the FSTC. However, a state can still help maximize the success of SGOs that align with the state's theory of action. Specifically, states can develop a process for identifying and elevating from the list of approved SGOs those SGOs that are most likely to advance the state's priorities, such as supporting public school students generally and/or focusing on high-priority groups of students, types of expenses, or reaching an evidence or quality bar. This list of aligned SGOs would identify, and bestow the state's imprimatur on, only those SGOs that complement the state's goals for the FSTC. In some states, this could manifest as a curated list that only includes SGOs that meet certain criteria or benchmarks. In others, the state could maintain a dashboard or scorecard where information on all approved SGOs that support public school students is provided across a number of priority factors related to the state's theory of action. It will be important that states identify their priorities early and revisit them as the state's program grows. States may wish to prioritize SGOs that, for example:

- are organized to partner with specific school districts (e.g., an SGO established by an existing education foundation with strong ties to a local school district);
- provide scholarships only to a certain subset of eligible public school students or that prioritize those students in awarding available funds (e.g., low-income students, students who attend Title I schools, English learners);
- provide scholarships for certain types of qualified expenses (e.g., high-impact tutoring, extended day programming, AP test fees);
- meet waste, fraud, and abuse prevention standards; and/or
- comply with state requests for additional data, information, or verifications.

Once a state has identified the SGOs that align with its theory of action, they need to communicate this information to donors. A state could add to its FSTC webpage (whether a government webpage, or one operated by trusted partners) both the complete list of public school SGOs and information on SGOs aligned to the state's theory of action.[12] The state could also spotlight its list through media advertisements, mailers, or any other mechanism the state uses for communicating with taxpayers. For instance, the state could include information on its taxpayer portal about the FSTC, including information

[12] The proposed regulations would require that "any publicly available list of SGOs maintained by the State is identical to the most recently submitted State SGO list"; however an entity outside of the state government could maintain a curated list.

about how to make donations and receive the tax credit, and where to find information on SGOs aligned to the state's theory of action. State leaders could also highlight SGOs that align with their theory of action during existing campaigns focused on increasing charitable giving, or through site visits, speeches, and other bully pulpit opportunities.

- *States should create a process for identifying SGOs that align with the state's theory of action and mechanisms for elevating those organizations.*

## WHAT THIS COULD LOOK LIKE

The Charitable Organizations Division of the Department of Revenue uses both required and optional data submitted from SGOs to populate a performance dashboard. The dashboard displays a wide variety of data and clearly indicates which SGOs meet certain state-prioritized criteria: at least 75% of scholarships go to students from families below 150% of the federal poverty line, at least 50% of scholarships go to supporting literacy, career-connected learning, or arts education (all of which align with the state's theory of action), and 100% scores on all state quality and compliance checks. The dashboard features these SGOs with a gold star and prominent placement on the dashboard's list of eligible SGOs. The Department releases quarterly press releases highlighting the gold star SGOs and the Secretary of Education elevates them through in-person events and social media campaigns.

### D. Incentivize and streamline donations to SGOs that align with the state's theory of action

States can encourage donors to contribute to SGOs that support public schools and align with the state's theory of action. For example, in its role as an employer, a state can create a system where all state employees are eligible to contribute to SGOs through a payroll deduction, or help develop payroll deduction tools other organizations can use. States could work with the business community to encourage payroll deduction approaches and employee participation (see 3B above). Additionally, philanthropy could offer to match donor contributions to SGOs aligned with the state's theory of action (or a subset of those SGOs), which would both encourage more donor contributions and increase the total amount of funding available to support public school students. These types of incentives may also be used to encourage donors to contribute more than the $1,700 maximum for which the federal tax credit is available.

- *States should develop or facilitate processes for incentivizing donations to SGOs that support public school students and, among those, the SGOs most aligned with the state's theory of action, including mechanisms such as payroll deductions and matches.*

## WHAT THIS COULD LOOK LIKE

To incentivize donations to the state's gold star SGOs serving public school students, a state philanthropy provides a dollar-for-dollar match to those SGOs during back-to-school season. The existing payroll system that allows state employees to make automatic bi-weekly donations to charitable organizations is paired with clear messaging and technical assistance on how to amend tax withholdings to allow employees to make regular, automatic donations to gold star SGOs serving public school students without seeing a change in their take-home pay.

### E. Promote public school student awareness and participation in the FSTC

States should develop a student and family communication and information campaign to increase awareness of the FSTC and the types of items and services for which public school students can use scholarships. Information geared toward students and families should be factual, easy to understand, and actionable. States should explicitly clarify for families and students that FSTC-funded scholarships are available to public school students, specify income eligibility requirements (including categorical eligibility options), and describe what types of expenses are eligible (and may choose to highlight those expenses that particularly align with the state's theory of action). States can also provide consumer protection warnings so that families know how to find approved SGOs – including gold star SGOs – and avoid fraudulent attempts to collect contributions or personally identifiable information.

Any materials that a state creates should be provided in multiple languages, and states should work with local communities to disseminate information in places where families congregate, like schools, recreation centers, places of worship, and libraries. The state should ensure all public school students have access to this information and may also target outreach to those students furthest from opportunity. For instance, states could provide information about the FSTC directly to every family with a school-aged child that applies for a state benefit program or registers to receive free and reduced-priced meals at school. The state's FSTC webpage(s) can be another way to get information to families easily. The website should allow families to obtain and filter information they need to decide which, if any, SGO scholarship opportunities to seek. The website could provide a brief description of the scholarships offered by each SGO, allow users to sort SGOs by the type of qualified expense for which their scholarships can be used, geographic area or schools served, the eligibility requirements for specific scholarships, and highlight gold star SGOs that align with the state's theory of action and/or providers that have a strong track record.

- *States should ensure that public school students and families have clear, accurate, and easily accessible information about the FSTC and how to participate.*

## CONCLUSION

The FSTC presents both risks and opportunities for public education in states that choose to participate. The extent to which states' implementation of the FSTC maximizes support for public school students and minimizes risks to public schools will largely depend on the degree of intentional, coordinated actions within each of those states. State leaders – including leaders in state governments, advocacy organizations, philanthropic partners, and organizations serving as statewide SGOs and statewide service providers – will have to make many decisions and build systems that maximize the tax credit's benefits for public school students, particularly those furthest from opportunity. Those coordinated actions must include planning, executing, and continuously improving across all of the sections discussed in this document. As the federal rules become clearer, as state leaders collaborate in planning, and as the FSTC is implemented across participating states, we will continue to revise this document with updated information, illustrative real-world examples, and emerging promising practices.

*This document was updated on November 16, 2026, to reflect new information from the proposed regulations released by Treasury on October 2, 2026.*

*DISCLAIMER: The information provided above does not serve as legal counsel and, given the pace of action, could be outdated quickly. If you have any suggestions or feedback, please send it to info@educationcounsel.com.*

# APPENDIX: Summary of All Considerations for State-Level Leaders

## SECTION 1: Set a Goal and Strategy to Support Public School Students

A. **Develop a statewide theory of action**: States should develop a theory of action that clearly describes how the program supports the state's goals for education and clarifies the state's role in order to facilitate aligned action and provide a north star for the many decisions that will arise during the program's design and operations.

B. **Establish a coordinating group and identify a lead coordinator**: States should develop a cross-stakeholder working group with a dedicated lead to coordinate efforts to advance the use of FSTC funds to support public school students.

C. **Develop a roadmap for implementing the FSTC**: States should develop a roadmap for implementing the FSTC in a way that aligns with the state's theory of action, takes into account time-sensitive decisions, and incorporates stakeholder feedback.

D. **Plan for continuous improvement**: States should develop continuous improvement mechanisms and ensure there is dedicated capacity to regularly review and update the state's theory of action, roadmap for implementation, and other program resources to ensure they consistently reflect the state's best thinking.

## SECTION 2: Align State Government Policies and Practices

A. **Formalize opt-in (or opt-out) decisions**: A state must determine whether or not to participate annually and, if it does, submit a list of eligible SGOs and all required certifications to Treasury by the deadline each year for the FSTC to be operable in the state.

B. **Develop a process for regulating, approving, and monitoring SGOs:** States should develop clear procedures, aligned with the state's theory of action, for regulating, approving, and monitoring SGOs to ensure organizations operating in this capacity meet federal and state requirements.

C. **Support the verification of student eligibility**: States should develop guidance, and where possible streamline processes in privacy-protecting ways, to support SGOs in verifying students' eligibility while minimizing burdens to students and families.

D. **Review the state's definition of "elementary or secondary school"**: States should review their existing definition of "elementary or secondary school" to understand how it aligns with and reflects their theory of action and consider making revisions, if necessary, to strengthen alignment and maximize the opportunities for public school students to make use of scholarships.

E. **Review the state's rules and guidance on what eligible items and services must or can be "required or provided by" schools**: States should review their rules and guidance on what eligible items and services must or can be "required or provided by" schools and consider making revisions, if appropriate, to strengthen alignment with their theory of action.

F. **Provide guidance on qualified expenses for scholarships:** States should develop (and update as needed), disseminate, and provide technical assistance on qualified expenses to maximize the use of FSTC scholarships in ways that align with their theory of action.

G. **Establish a process for collecting and reviewing data:** States should develop processes for collecting, reviewing, and, where appropriate, publishing data to maximize quality, prevent waste, fraud, and abuse, ensure transparency, and promote effective program administration, while attending to data-privacy and security requirements.

H. **Establish a system to monitor and prevent waste, fraud, and abuse:** States should establish a system to ensure program integrity and monitor, prevent, detect, and address waste, fraud, and abuse across the program.

I. **Protect public schools against negative funding impacts:** States should develop proactive plans to protect against negative impacts of the FSTC on public schools, including making revisions to existing funding practices, if necessary. States should also monitor the impact of the FSTC on public school funding and ensure policymakers understand the ongoing budgetary needs of public schools in the state.

## SECTION 3: Support Infrastructure for SGOs, Providers, Districts, and Families

A. **Support an ecosystem of aligned SGOs**: States should develop a process for supporting the development, infrastructure, and operations of an SGO ecosystem aligned to their theory of action, including the development of one or more statewide SGOs, to ensure all eligible students have access to SGOs that are set up for and committed to supporting public school students.

B. **Develop or support the development of the infrastructure to streamline donations for public school students**: States should consider what infrastructure is most needed to streamline the donation process, for both donors and SGOs, and support the development of necessary resources.

C. **Develop or support the development of the infrastructure necessary to ensure scholarships are distributed only to eligible students for qualified expenses:** States should design and implement a plan to support the development of resources to streamline eligibility verification and avoid award duplication as much as possible.

D. **Support the capacity of service providers to interface with the public school system and meet increased demand for services:** States should collect information about current and projected service provider capacity and the information they need to partner with schools and districts and develop strategies for filling any gaps.

E. **Support the capacity of public schools and districts to serve as leaders and drivers of leveraging FSTC scholarships to meet the needs of public school students:** States should provide resources and technical assistance to districts to build school and district capacity and help them design, implement, and improve their role in the FSTC.

## SECTION 4: Develop Communication Campaigns and Incentives

A. **Help the public understand the FSTC:** States should help ensure the public has accurate information about the FSTC, whether through a dedicated FSTC website, mailers, social media, television and radio campaigns, or other means.

B. **Raise awareness for school and district leaders about the FSTC:** States should ensure that school and district leaders have accurate information about the FSTC and how it can be used to support public school students.

C. **Identify and elevate SGOs that align with the state's theory of action:** States should create a process for identifying SGOs that align with the state's theory of action and mechanisms for elevating those organizations.

D. **Incentivize and streamline donations to SGOs that align with the state's theory of action:** States should develop or facilitate processes for incentivizing donations to SGOs that support public school students and, among those, the SGOs most aligned with the state's theory of action, including mechanisms such as payroll deductions and matches.

E. **Promote public school student awareness and participation in the FSTC:** States should ensure that public school students and families have clear, accurate, and easily accessible information about the FSTC and how to participate.