

On July 3, 2025, the 119<sup>th</sup> U.S. Congress passed H.R. 1: One Big Beautiful Bill Act (OBBBA),<sup>1</sup> which was subsequently signed into law the following day by President Donald Trump. Contained in the OBBBA is a new federal tax credit scholarship program designed to support school choice initiatives and students with education-related expenses.

This program marks the first time the federal government would be effectively funding a nationwide private school choice program — should all states choose to participate. The program, funded through federal tax credits, also comes at a time when the federal government is imposing deep funding cuts in other areas.

This document addresses key questions about how the new program might work, who would be eligible, and what it could mean for Connecticut's students, schools, communities, and residents.

### **What is the federal tax credit scholarship program?**

The OBBBA established a new tax credit scholarship program that is primarily intended to assist K-12 students with the cost of attending private schools but also includes additional types of educational expenses. Participation is left to each state's discretion. The program allows individuals and organizations to contribute up to \$1,700 to approved scholarship-granting organizations (SGOs), with donors receiving a dollar-for-dollar credit against their federal tax liability. In other words, donations directly reduce the amount of tax owed rather than simply lowering taxable income as a deduction would. For example, if someone owes \$10,000 in federal income taxes and donates \$1,700 to an SGO, their tax bill would be reduced to \$8,300. This structure makes the program one of the most generous federal tax incentives available, as no other charitable giving program allows contributors to be reimbursed for their full donation amount.<sup>2</sup>

### **What is a scholarship-granting organization (SGO)?**

Scholarship funds will be managed by scholarship-granting organizations (SGOs), defined under the OBBBA as tax-exempt 501(c)(3) organizations, including educational nonprofits, universities, and churches. SGOs will send donated funds to families to be used for eligible educational expenses. SGOs may retain up to 10% of the income from the scholarship funds to cover administrative costs.

### **When does the tax credit scholarship program begin?**

The program is scheduled to launch on January 1, 2027, but taxpayers will be able to make donations starting in late 2026 — allowing them enough time to claim the credit on their 2027 tax return.

### What is the role of the State of Connecticut?

In each state, the governor — or another entity designated under state law to make decisions about federal tax benefits — must determine whether to participate in the program. Most states are still reviewing the details before making a decision.

Many Republican-led states have signaled their intent to participate, while most states with Democratic governors have yet to commit. However, two states — New Mexico and Oregon — have already opted out.<sup>3</sup> Connecticut is still weighing whether to join the program.

Even if a state opts in, the program allows states to impose additional regulations on SGOs. For example, if Connecticut opts in to the program, it may establish additional rules for SGOs, helping to ensure the scholarship funds are spent in a manner that aligns with the state's priorities for education.

### Who is eligible to receive scholarship funds?

In order to be eligible to receive scholarship funds, students must be eligible to attend public school and come from households that earn less than 300% of their area's median income. In Connecticut, this upper limit ranges from approximately \$241,000 to \$357,000, depending on the planning region.<sup>4</sup> Priority will be given to students who either received a scholarship in the previous year or have a sibling who received a scholarship. While SGOs may only operate in states that opt in to the program, residents of opt-out states may still donate to operating SGOs and receive the federal tax credit.

### How much money could families receive?

Although the bill caps individual donor contributions at \$1,700, the OBBBA does not currently specify or limit how much funding a single family may receive. It also does not prohibit families from combining funds from this federal program with state-based private school choice scholarship programs. However, some states may choose to replace their existing programs with this federal option.

In theory, a family could receive a scholarship that covers the full cost of private school attendance. That said, Connecticut has the highest private school tuition in the nation, with many schools charging more than \$70,000 annually, making it unlikely that many students will receive scholarships sufficient to cover the full cost of tuition should Connecticut opt in to the program.<sup>5</sup>

### What are eligible educational expenses?

While the program appears to be primarily aimed at helping families pursue private education, the OBBBA uses broad language that allows scholarship funds to cover a wide range of expenses. Eligible uses may include tuition, fees, tutoring, special education services, supplies, and other educational materials. Funds may be applied to private schools (including religious schools), other school choice options, homeschooling,

or even certain public school programs.<sup>6,A</sup> It is also worth noting that private schools are not obligated to accept the scholarships, as they retain the right to admit or reject students at their discretion.

It remains uncertain how public schools will participate. Drawing on experiences from other programs in other states, public schools could choose to charge students receiving scholarships for services such as tutoring, extracurricular activities, special education, or individual courses.<sup>B</sup> Some have also suggested scholarship funds could be used to support some expenses for public school students, such as transportation or supplies.<sup>7</sup>

As noted above, individual states may have the ability to set additional rules on how the funds can be spent, so allowable uses will likely vary across states.<sup>8</sup>

### How much will the scholarships cost the government?

Although the program is not directly funded by the federal government, it will redirect billions of tax dollars each year to support a relatively small number of students. Previous versions of the OBBBA capped this diversion at \$5 billion annually, but the current program has no overall limit. For context, if the \$5 billion cap had been maintained, and the program supports roughly one million students (as some estimates suggest), this would have translated to about \$5,000 per student in the program.<sup>9</sup> This per-student amount is considerably higher than funding provided through other federal programs. For example, these conservative estimates are nearly three times the current level of per-student federal support provided under the Individuals with Disabilities Education Act (IDEA), and roughly eight times the level of per-student federal funding for students supported by Title I or the free or reduced-price lunch program.

### What regulations exist to oversee the program?

As the primary administrative entities of the program, SGOs must verify participating families' income and eligibility. They are also required to administer scholarships to at least 10 students who do not all attend the same school, and they may not designate funds for specific students.

SGOs will be subject to additional federal regulations regarding verification procedures and reporting requirements, which the U.S. Department of the Treasury is expected to

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<sup>A</sup> While the U.S. Supreme Court has historically ruled the federal government cannot fund religious schools outright, this complex use of the tax code and SGOs allows money to be directed toward religious education in a way the Supreme Court has allowed. In a previous Supreme Court case, *Espinoza v. Montana Department of Revenue*, the Court ruled states could not exclude religious schools from participating in school voucher programs solely due to their religious affiliation. This indicates the Supreme Court is open to the federal tax credit scholarship program being directed toward religious private schools. To read more about *Espinoza v. Montana Department of Revenue*, please see <https://www.npr.org/2020/06/30/883074890/supreme-court-montana-cant-exclude-religious-schools-from-scholarship-program>

<sup>B</sup> In Illinois and Maine, private school students can apply to attend public schools part-time. In West Virginia, homeschooled students may apply to attend public schools part-time, and in Idaho, charter school students can also enroll part-time at a public school. In Washington, any students can take individual courses at public schools. To read more about part-time public school enrollment, please see [https://excelined.org/wp-content/uploads/2021/06/ExcelinEd\\_PolicyAnalysis\\_PartTimeEnrollment\\_June2021.pdf](https://excelined.org/wp-content/uploads/2021/06/ExcelinEd_PolicyAnalysis_PartTimeEnrollment_June2021.pdf).

announce at a later date. States may also impose additional requirements on SGOs and hold the power to approve or deny their certification.

### **What are some potential implications for Connecticut students and communities if the State opts in?**

If Connecticut opts into the new tax credit scholarship program, there could be significant impacts on students attending public schools. The full impacts, however, will depend on the extent and nature in which the State participates in the program. In that regard, the current uncertainty regarding the ability for states to craft regulations for SGOs, as well as unknown but forthcoming regulations from the Treasury Department, will ultimately define the impacts on Connecticut students and communities. For example, it is unclear whether or not a state could opt in to the program but confine the program to non-private school choice expenses through regulation of SGOs. The ability to do so may be an important factor in determining whether or not Connecticut participates in this program.

At the same time, whether or not Connecticut opts in to the program, overall federal revenues to support services, including K-12 education, will decline because taxpayers in states that opt in to the program will claim credits to their income tax due, thereby lowering the pool of federal education revenue. While federally funded grant programs, such as Title I and IDEA, are not yet directly impacted, future budgets could shift if federal education funding continues to shrink.

## Endnotes

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<sup>1</sup> P.L. 119-21.

<sup>2</sup> Arundel, K. (2025, July 8). 3 things to know about school choice in the 'One Big, Beautiful Bill'. *K-12 Dive*. Retrieved from <https://www.k12dive.com/news/3-things-to-know-about-school-choice-in-the-one-big-beautiful-bill/752367/>.

<sup>3</sup> Schultz, B. (2025, August 4). Opt In or Not? States Weigh Big Decision on Federal School Vouchers. *Education Week*. Retrieved from <https://www.edweek.org/policy-politics/opt-in-or-not-states-weigh-big-decision-on-federal-school-vouchers/2025/08>.

<sup>4</sup> U.S. Census Bureau (2024, October 25). Median Household Income by County in the United States and Puerto Rico. Retrieved from <https://www.census.gov/library/visualizations/interactive/median-household-income.html>.

<sup>5</sup> Putterman, A. (2024, April 29). See which Connecticut private high schools charge the highest tuition. *CT Insider*. Retrieved from <https://www.ctinsider.com/news/education/article/connecticut-private-school-tuition-costs-19405860.php>.

<sup>6</sup> Morton, N. (2025, August 1). 10 things to know about Trump's new school voucher program. *The Hechinger Report*. Retrieved from <https://hechingerreport.org/whats-a-tax-credit-scholarship-the-details-behind-the-first-national-school-voucher-program/>.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Blagg, K. (2025, June 24). How Does the Federal Tax Credit Scholarship Proposal Stack Up Against Other Federal Investments in K-12 Education? *Urban Institute*. Retrieved from <https://www.urban.org/urban-wire/how-does-federal-tax-credit-scholarship-proposal-stack-against-other-federal-investments>.