

## **Potential Funding Opportunity for Afterschool and Summer in 2027 Scholarship Tax Credit**

A new federal scholarship tax credit has the potential to become a funding source for afterschool and summer programs. The regulation offers taxpayers a federal tax credit of up to \$1,700 for contributions made to a Scholarship Granting Organization (SGO). SGOs provide scholarships to students for education-related services at private or public schools, including supports such as afterschool programming.

The scholarship tax credit was written into law in July 2025. The parameters and rules around this policy, however, are not yet set, and key levers will affect whether and how the credit functions in your area.

The Afterschool Alliance aims to use any opportunities available to inform the development and implementation of the scholarship tax credit policy so that it has the greatest potential to help local afterschool and summer learning programs provide quality programming for the children and families who need their support most. Funding available for students and programs in your state will also depend on the actions of parents, nonprofits, program providers, and lawmakers.

### **How It Works:**

Taxpayers donate up to \$1,700 to a nonprofit Scholarship Granting Organization (SGO). When filing taxes for that year, taxpayers report the donation and their tax bill is reduced by the amount of the donation.

SGOs provide scholarships to students in families earning no more than 300% of the area median income. Scholarships cover education-related services at private or public schools, including afterschool programming. Scholarship recipients and amounts are determined by the SGO. SGOs must also follow regulations set out by the federal or state government.

### **Amount of Funding:**

Education Reform Now estimates that the credit could generate \$24 billion in education funding annually. According to their study, if one percent of eligible taxpayers participated, the credit would generate \$23 million in a state like North Carolina.

### **Key Levers:**

**U.S. Department of Treasury/IRS** will define regulations around the credit that could affect what programs or services are eligible.

**State Governors** must decide to opt in or out of the policy. The law allows them to make this decision annually, by January 1st every year.

[https://ballotpedia.org/State\\_participation\\_in\\_the\\_federal\\_K-12\\_education\\_tax\\_credit\\_program](https://ballotpedia.org/State_participation_in_the_federal_K-12_education_tax_credit_program)

**Scholarship Granting Organizations (SGO)** must be in place to receive donations. Each state participating in the credit will need to have a list of approved SGOs. Criteria for SGOs set out thus far:

- Must be a nonprofit
- Must use at least 90% of its income on scholarships for educational services for eligible K-12 students.
- Must not provide scholarships for any expenses other than qualified elementary or secondary education expenses.

**Programs** that wish to offer scholarships will need to identify or develop SGOs that can award funds to cover eligible students, and ensure families know how to request a scholarship from the SGO.

**Taxpayers** must be aware of the policy, and choose to make donations to approved SGOs that offer scholarships for afterschool and summer programs.

**Families** will need to know if they are eligible to receive scholarships (some estimates suggest up to 90% of families with school-age children would be eligible).