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The Federal Scholarship Tax Credit (FSTC) Readiness Playbook

What to Do Now and How to Be Ready for January 2027

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April 7, 2026 | WATCH LIST items will be updated as IRS and Treasury guidance is finalized

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Introduction

A Once-in-a-Generation Moment for School Choice

On July 4, 2025, a new federal scholarship tax credit became law as part of the One Big Beautiful Bill Act. You may have seen it called the Federal Scholarship Tax Credit or the Education Freedom Tax Credit. Throughout this playbook, we use the Federal Scholarship Tax Credit (FSTC).

For the first time in American history, every U.S. taxpayer with federal tax liability can direct up to $1,700 directly to a scholarship program. That opens a new source of funding for students and families across every kind of school, including public and charter. And for the first time, SGOs are being asked to operate at a scale most of them have never encountered.

This playbook is a practical guide for anyone looking to support implementation of the FSTC: Executive Directors, Program Directors, Development Officers, Operations staff, board members, diocesan leaders, association and network administrators, and state-level coordinators. It is organized around the three relationships that define SGO work: the donors who fund programs, the schools that participate in them, and the families and students they serve. We close with the compliance and infrastructure layer that holds everything together.

Where regulatory guidance is still pending, we say so clearly in WATCH LIST callouts. Everything else is grounded in what the statute requires and is actionable now.

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How to Use This Playbook

Each section stands on its own, so jump directly to the area most relevant to your role. Every section includes a Designed For label, key responsibilities, practical strategies, TIP and WATCH LIST callouts, a FACTS Compass Spotlight, and an Action Steps Checklist to print and use with your team.

At the end of this playbook, you will find four role-specific checklists for SGOs, schools, ecosystem coordinators, and emerging organizations. Use the one that reflects your organization's role in the FSTC ecosystem.

COMPASS FACTS

What is FACTS Compass?
Throughout this playbook, you will see references to FACTS Compass. FACTS Compass is the scholarship program management platform, built to help SGOs manage applications, verify eligibility, and oversee scholarship programs within one trusted system. Where you see a FACTS Compass Spotlight, you will find a closer look at how the platform supports that section's workflows.

Key Numbers

Number	What It Means
$1,700	Maximum individual annual tax credit per contributor
90%	At least 90% of FSTC donations must go to scholarships
300%	Income limit for student eligibility, based on HUD area median income
10	Minimum students an SGO must serve
28	States opted in as of April 2026
January 1, 2027	Date federal credits become available

If taxpayers contribute up to $1,700 each:

Participation Level	Estimated Annual Contributions
1% participation	approximately $800M
15% participation	approximately $12B
30% participation	approximately $24B

Source: Education Reform Now / Democrats for Education Reform, October 2025. View Report

SECTION 1

Understanding the Federal Program

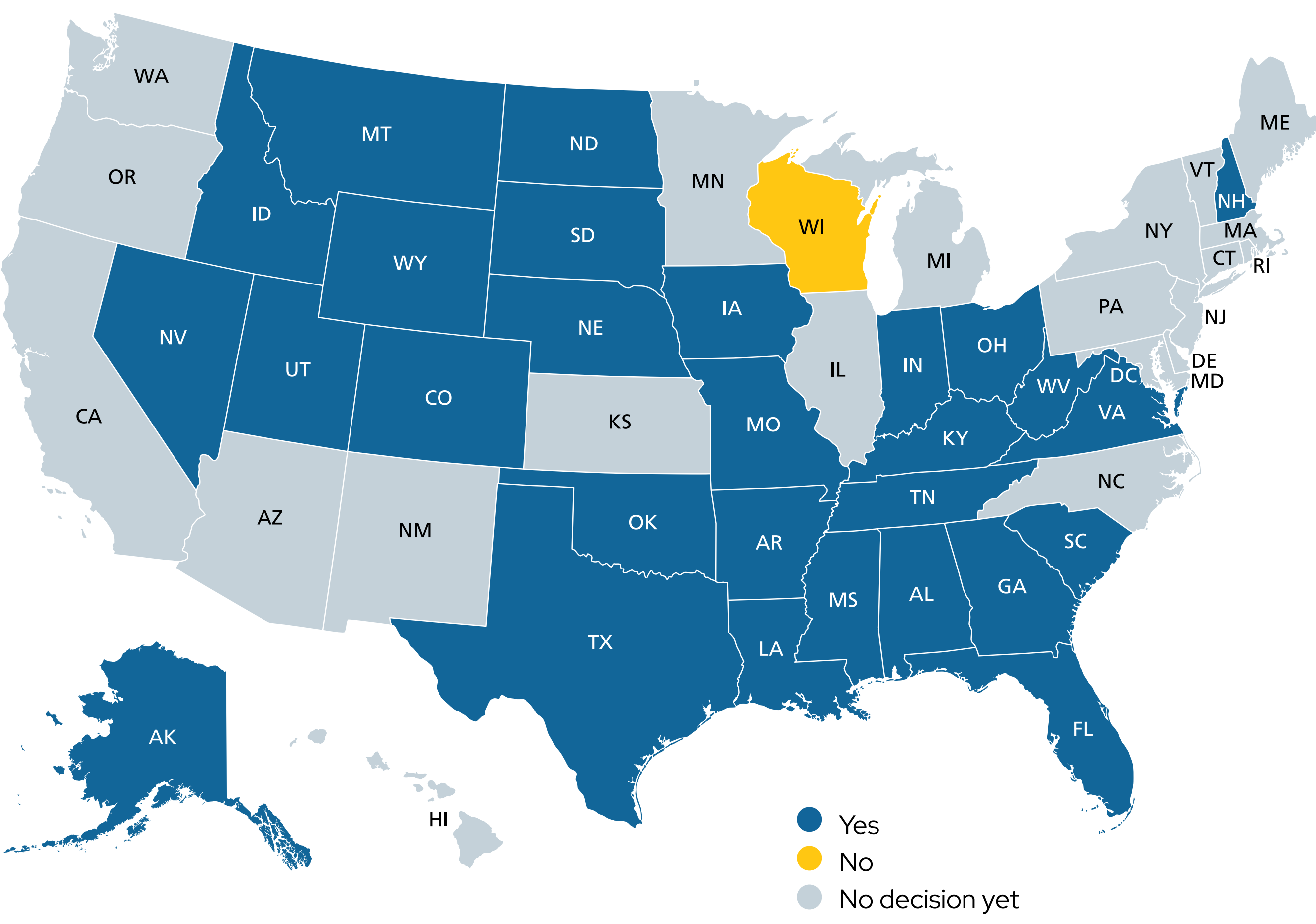
DESIGNED FOR

- Executive Directors, CEOs, and Board Members responsible for deciding whether and how your SGO participates.

The Federal Scholarship Tax Credit, IRC Section 25F, is permanent, has no aggregate program cap, and is open to donors nationwide. The federal tax credit is available to any U.S. taxpayer who makes a cash contribution to a qualifying SGO, regardless of where the donor lives. The key requirement is that the SGO must be located in and certified by a state that has elected to participate in the program. That means a donor in any state can contribute to a qualifying SGO in a participating state and claim the credit on their federal return. That opens the national donor pool to every participating SGO.

As of late March 2026, 28 states have formally opted in: Alabama, Alaska, Arkansas, Colorado, Florida, Georgia, Idaho, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, North Dakota, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, West Virginia, and Wyoming. Additional states are still considering participation.

Who is Opting in to the Federal Scholarship Tax Credit so far?



What the Statute Requires of Qualifying SGOs

These requirements are established in statute and are unlikely to change through regulation.

- **501(c)(3) public charity status**
  SGOs must be recognized as a 501(c)(3) public charity. Private foundations do not qualify.
- **90% scholarship allocation**
  At least 90% of organizational income must be used to fund scholarships for eligible students. See WATCH LIST below for interpretation considerations.
- **Student eligibility at or below 300% of HUD area median income**
  Students must have household income at or below 300% of the HUD area median income for their geographic region, with income and family size verified by the SGO.
- **Income verification**
  SGOs must verify household income and family size for all applicants.
- **Multi-student, multi-school requirement**
  Scholarships must support at least 10 students across more than one school.
- **No donor earmarking**
  Contributions may not be designated for a specific student.
- **Qualified use of funds**
  Scholarships must be used for approved educational expenses.
- **Fund segregation**
  Qualified contributions must be maintained in separate accounts and may not be commingled with other organizational funds.
- **State listing requirement**
  SGOs must be included on a state-submitted list of approved organizations provided annually to the IRS.

WATCH LIST
Key areas pending guidance

While the following requirements are defined in statute, several areas will depend on federal guidance and implementation decisions. Monitor these closely and plan for flexibility in your operating model.

Definition of "Organizational Income" (90% Rule)
The statute requires that at least 90% of an SGO's income be distributed as scholarships. What remains unclear is how 'income' will ultimately be defined, whether it applies only to qualified FSTC contributions or to all organizational revenue. SGOs managing both state and federal programs under a single entity should model both scenarios before making permanent structural decisions.

Income Verification Standards (300% AMI)
SGOs are required to verify household income and family size, but key details remain undefined. Open questions include how the IRS will define household income and whether it covers all household members or is limited to guardians, whether IRS data will be accessible or required for verification, what documentation standards will be accepted, and whether third-party verification tools will be permitted or required.

Audit and Reporting Requirements
The statute requires recordkeeping but does not define specific audit or reporting standards. Open questions include what reporting will be required to the IRS or states and what level of detail will be required for donor, student, and fund tracking.

State Participation and Oversight
States must opt in and submit SGO lists, but the structure of state oversight is not fully defined. Open questions include whether states will impose additional requirements beyond federal rules and how state and federal compliance will interact. This may require different operating models by state.

Definition of Qualified Expenses
Scholarships must be used for qualified educational expenses, but implementation details may vary. Open questions include how strictly expenses will be interpreted, whether reimbursement versus direct payment models will be allowed, and what documentation will be required from families and schools.

WATCH LIST (cont.)
Key areas pending guidance

Program Coordination Across Funding Sources
The statute does not address how the FSTC interacts with existing state programs or school-based aid. The primary open question is how funds will be layered across programs at the student level. We will update this section as Treasury and IRS guidance is published.

What You Can Act On Right Now

The FSTC is not a single-organization effort. Whether you are an established SGO, a diocese, network, or federation standing up a new program, a school consortium or association evaluating participation, a foundation considering the opportunity, or a state-level leader coordinating implementation, the foundational work is largely the same. The organizations that define their role early and align with the schools, states, and partners around them will be best positioned when credits become available in January 2027.

For organizations operating or standing up a scholarship program, the immediate priorities are the same regardless of your structure or starting point.

- Confirm your 501(c)(3) public charity status is current
- Open dedicated, segregated accounts for federal qualified contributions before your first donation arrives.
- Map the AMI thresholds for the counties your student population comes from.
- Confirm your inclusion on your state's certified SGO list.
- Assign someone on your leadership team to monitor IRS and Treasury publications throughout 2026.

Beyond your own organizational readiness, three coordination touchpoints matter most right now. With your state, confirm your path to inclusion on the certified SGO list and stay current on how your state is implementing the program. With the schools in your program, begin aligning on enrollment verification, payment timing, and what information you will need from them. With your donor network, start building the education and acquisition infrastructure the individual donor model requires before credits go live.

The sections that follow address each of these areas in depth.

What Infrastructure Is Required

Effective program administration requires ten areas of infrastructure working together:

- Application and eligibility management
- Verification and compliance
- Donor and contribution management
- Scholarship and award management
- Fund flow and payments
- Wallet and expense management (where applicable)
- School integration and coordination
- Multi-program coordination
- Reporting and audit
- Communication and engagement

Each of these areas is addressed in the sections that follow. Organizations that assess their current capabilities against all ten before January 2027 will be better positioned to identify gaps, prioritize investments, and avoid the operational problems that surface when programs begin scaling under the federal program.

COMPASS

FACTS

Supporting the Infrastructure the FSTC Requires

The FSTC's core compliance requirements, including income verification against AMI thresholds, application intake, fund tracking, and audit-ready documentation, are the operational workflows FACTS Compass was designed to manage.

For organizations building federal program infrastructure from the ground up, FACTS Compass provides structured eligibility workflows, application management, and compliance documentation that map directly to what the program requires. For established state SGOs adding a federal layer, Compass supports both programs within one system so your team is managing one platform, not two, as program complexity increases.

FACTS has served private and faith-based schools, dioceses, and education organizations for more than 35 years, and FACTS Compass will be updated to reflect final requirements as Treasury and IRS guidance is published.

Request a FACTS Compass consultation

For an overview of the program from the agencies responsible for implementing it, refer to the Federal Scholarship Tax Credit joint fact sheet from the U.S. Departments of Education and Treasury

SECTION 1

Action Steps Checklist

Print and Complete With Your Leadership Team

- ○ Verify your state has opted in or identify the path to participation
- ○ Confirm your inclusion on your state's certified SGO list
- ○ Map AMI thresholds for the counties your student population comes from
- ○ Assign a regulatory watch owner to monitor IRS and Treasury publications
- ○ Establish a protocol for how new guidance reaches leadership and triggers planning updates

SECTION 2

Organizational Readiness

DESIGNED FOR

- Executive Directors, CFOs, Board Members, and Diocesan Leaders responsible for organizational structure, governance, and financial infrastructure.

Sound organizational structure is the foundation everything else depends on. Before you recruit a single donor or accept a single application, your legal structure, governance practices, and financial infrastructure need to be ready for what the federal program requires.

For organizations with existing state programs, the path to federal readiness is mostly about confirming what you have and addressing specific gaps. For organizations forming specifically for the FSTC, it means building in the right order.

Key Responsibilities for Organizational Readiness

- Confirm 501(c)(3) public charity status and assess whether a separate federal entity is needed
- Review board composition for disqualified person conflicts
- Establish financial infrastructure for fund segregation and the 90% allocation requirement
- Plan for the annual audit or compliance confirmation process and identify a firm with nonprofit and scholarship program experience
- Engage legal and financial advisors familiar with Section 25F

Strategies and Best Practices

- **Assess your entity structure**
If your SGO currently runs a state program, determine whether federal activities should operate under your existing entity or a new 501(c)(3). Most organizations are proceeding under their existing entity and opening dedicated segregated accounts for federal contributions. Whether a separate entity is needed depends on your financial structure and how the 90% income rule is ultimately interpreted. Talk to your attorney about the right approach for your organization before your state submits its certified SGO list.

- **Review your board**
The statute prohibits scholarships from benefiting dependents of disqualified persons, including directors and substantial contributors. Consult your attorney to confirm your board structure meets the disqualified person requirements under Section 25F.

- **Establish financial infrastructure**
Open dedicated accounts for federal contributions before your first donation arrives. Configure your accounting system to track federal contributions, disbursements, and administrative expenses separately. Build reconciliation into your monthly routine, not your year-end scramble.

- **Model your financial structure under the 90% requirement**
Before committing to an operating model, run your projected revenue and expenses through both interpretations of the 90% income rule. Assess financial sustainability at different participation levels, from a small pilot program to a scaled operation, so your structure can support growth without requiring a rebuild.

- **Plan for the annual audit**
Identify an audit firm with nonprofit and scholarship program experience now. Audit capacity fills up. Build audit preparation into your annual calendar as a standing process with monthly and quarterly checkpoints throughout the year.

- **Engage qualified advisors**
The organizational structure decisions you are making now require legal and financial expertise. Advisors with nonprofit tax experience and demonstrated work in school choice or scholarship programs are already active in this space. Prioritize firms that understand Section 25F specifically and can advise on both your entity structure and your ongoing compliance obligations.

Strategies and Best Practices (cont.)

- **For faith-based organizations**
  For faith-based organizations, this program is structured in a way that should feel both familiar and favorable. It is an indirect aid model, meaning scholarship funds flow from private donors rather than direct government appropriations. That structure significantly limits government involvement in how funds are used at the school level. Recent Supreme Court decisions have reinforced that faith-based schools cannot be excluded from programs like this based on religious identity. Move forward with confidence, and maintain clear governance and compliance practices as implementation guidance evolves.

TIP!

Do Not Let Structure Decisions Delay Operational Readiness

The entity question is important, but it should not hold up your donor infrastructure, application workflows, or fund disbursement processes. Build those in parallel. They are necessary regardless of how the structure question resolves.

COMPASS FACTS

Operational Infrastructure That Scales With Your Organization

Whether you are an established SGO, forming a new entity, or adding the federal tax credit to an existing program, FACTS Compass provides a single, unified system to manage donations, assign awards, and distribute funds with built-in tracking and compliance from day one.

Request a FACTS Compass Consultation

New to SGO formation?
The Children's Scholarship Fund Guide to Starting a Scholarship Granting Organization is a practical resource covering mission development, legal structure, and program design.

SECTION 2

Action Steps Checklist

Print and Complete With Your Leadership Team

Structure and Governance

- [ ] Confirm 501(c)(3) public charity status is current
- [ ] Assess whether a separate federal entity is needed
- [ ] Review board roster for disqualified person conflicts
- [ ] Update conflict of interest policy for federal program requirements

Financial Infrastructure

- [ ] Open dedicated segregated accounts for federal contributions
- [ ] Configure accounting system for federal program tracking
- [ ] Model revenue and expenses under both interpretations of the 90% income rule
- [ ] Assess financial sustainability at different participation levels
- [ ] Define how federal contributions will be tracked, allocated, and reported across programs

Compliance and Advisory

- [ ] Identify and engage an audit firm with nonprofit and scholarship program experience
- [ ] Engage legal and financial advisors familiar with Section 25F
- [ ] Assign internal ownership for regulatory monitoring

SECTION 3

Donor Relationships

DESIGNED FOR

- Executive Directors, Development Directors, and Board Members responsible for donor recruitment, education, and stewardship.

The FSTC fundamentally changes how scholarship programs are funded. Many SGOs running state programs have historically relied on a small number of large corporate contributions, and many SGOs have built strong programs on exactly that model. The $1,700 individual cap changes that. Reaching $1 million in contributions requires at least 588 individual donors. A $10 million program requires nearly 6,000. This is not a fundraising shift. It is an operational shift from relationship-based development to infrastructure-driven donor engagement and management.

Most SGOs have never operated at this volume. Many do not have the CRM infrastructure, communication capacity, or mass stewardship practices an individual donor program requires. Building that infrastructure in 2026 is what separates programs that are ready on January 1, 2027 from programs that spend their first year catching up.

Key Responsibilities for Donor Relationships

- Build and manage an individual donor base at federal program scale
- Educate donors on how the federal credit works and how it differs from a deduction
- Implement infrastructure capable of managing high-volume donor relationships
- Ensure accurate and compliant tax documentation for all contributions
- Execute a structured donor stewardship and retention strategy
- Build employer and corporate giving channels including payroll deduction programs
- Educate tax professionals in your area on how the federal credit works

Strategies and Best Practices

- **Set your donor volume targets first**
  Before you build anything, calculate the number of donors you need to reach your year one contribution goals. Then assess honestly whether your current systems, staff capacity, and acquisition channels can support that volume. The gaps in that assessment tell you exactly where to invest.

- **Educate before you ask**
  Most taxpayers have never heard of a tax credit scholarship. They do not know the difference between a credit and a deduction, and they do not know how the FSTC interacts with any state credits in your program states. Donor education is not a marketing add-on. It is a core function. Build simple, clear education materials that explain what the credit does, how it works, and why contributing means redirecting tax dollars rather than spending their own money.

  For a plain-language overview of how tax credit scholarships work at both the state and federal level, the EdChoice tax credit scholarship resource is a useful reference for donor education materials.

- **Build CRM infrastructure before donors arrive**
  Your donor management system needs to handle contribution tracking by donor and date, automated tax receipt generation, donor segmentation for targeted communication, and complete relationship history accessible to anyone on your team. Many organizations start with spreadsheets, and that works at low volume. It will not work reliably as federal program scale increases. Build or select the right system before your first federal contribution cycle opens.

Strategies and Best Practices (cont.)

- **Develop scalable acquisition channels**
  Individual donor acquisition at federal program volume requires institutional partnerships: employer payroll giving programs, faith community endorsements from pastors and priests and rabbis, professional and school association networks, and parent, alumni, and broader school communities at participating schools. A development director's personal network is not a scale strategy.

- **Reach the advisors donors trust**
  Tax professionals, CPAs, and financial advisors are often the first people donors consult before making a contribution. If a donor's accountant does not know how the FSTC works, the conversation stops before it starts. Build a simple outreach strategy for tax professionals in your area: a one-page explainer on how the credit works, how it differs from a deduction, and how to document a qualifying contribution. A tax professional who understands the program can introduce it to dozens of clients. That is a force multiplier no acquisition channel can match.

TIP!

Lead with mission, close with mechanics

Every donor communication should begin with impact, a student served, a family supported, a choice made possible. The mechanics of the tax credit should follow. Donors are motivated by outcomes, not tax strategy. The $1,700 credit gives them a reason to act on that motivation. Do not lead with the tax benefit.

- **Steward donors as mission donors**
  Donors are not purchasing a tax benefit. They are choosing to direct money that would otherwise go to the federal government toward scholarships for students in their community. For many donors, the net cost of contributing is minimal. This is as much a decision about intent as it is about philanthropy. Steward it that way. Share specific impact reports that name students and schools. Reach out proactively before each tax year ends. Make sure personal acknowledgment comes from your Executive Director. A donor who renews is worth far more than two first-year donors who do not.

- **Plan for retention from day one**
  At the $1,700 cap, donor retention has an outsized effect on your program's financial stability. A 70% retention rate means you need to replace nearly a third of your donor base every year just to stay flat. A 90% retention rate means most of your acquisition effort goes toward growth, not replacement. Build your stewardship program with specific retention targets, a renewal timeline that starts well before the tax year ends, and a re-engagement sequence for lapsed donors. The programs that grow fastest in years 2 and 3 will be the ones that kept the donors they worked hardest to acquire in year 1.

TIP!

Make the credit simple

The most effective explanation: "For every dollar you contribute, up to $1,700, you receive a dollar back on your federal taxes. You are not giving money away. You are choosing where your tax dollars go." Most donors understand this immediately.

COMPASS

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Donor Documentation and Program Tracking at Scale

FACTS Giving currently supports donation processing, school designation, annual tax receipts, and donor reporting for SGOs. As FACTS Compass expands, the platform will integrate donor contribution management directly into scholarship administration workflows, connecting contribution intake, donor designation tracking, and compliance reporting within a single system. If building your donor infrastructure is a priority before January 2027, talk to us about where the platform is headed and how we can support your program now.

[Request a FACTS Compass consultation]

SECTION 3

Action Steps Checklist

Print and Complete With Your Leadership Team

- ○ Set year 1 contribution targets and calculate required donor volume
- ○ Assess whether your current donor management system can support federal program scale
- ○ Select and configure CRM infrastructure for individual donor management at scale
- ○ Build automated tax receipt generation into the contribution workflow
- ○ Develop clear, plain-language donor education materials for the FSTC
- ○ Create guidance explaining how the federal credit interacts with state credits (if applicable)
- ○ Develop outreach materials for tax professionals in your area explaining how the federal credit works
- ○ Identify and activate at least three scalable donor acquisition channels
- ○ Build a donor stewardship calendar with regular, mission-driven touchpoints
- ○ Establish year 2 donor retention targets and define a renewal strategy

SECTION 4

School Relationships

DESIGNED FOR

- Program Directors, Operations Staff, and Diocesan Education Leaders responsible for school partnerships, award disbursement, and school communication.

Schools are the delivery mechanism of your scholarship program. Managing school relationships well means students actually land in classrooms, stay enrolled, and have the continuity their scholarships depend on year after year. The FSTC does not fundamentally change the nature of school relationships, but it raises the operational stakes. More donors, more students, and a new federal funding mechanism mean your school-facing processes need to be just as structured as your donor-facing ones.

Key Responsibilities for School Relationships

- Establish and maintain clear participation expectations for partner schools
- Communicate eligibility requirements, documentation standards, and program timelines consistently
- Coordinate with schools on enrollment verification and student status updates
- Execute accurate, timely, and well-documented scholarship disbursements
- Maintain records that support program transparency, reporting, and audit readiness
- Build trusted partnerships with schools while respecting institutional autonomy

Strategies and Best Practices

- **Build a standard school partnership framework**
  Every participating school should clearly understand how the program operates and what is expected of them. This includes what the scholarship covers, when and how funds will be disbursed, and what documentation is required to support eligibility, enrollment, and payment. A standard participation agreement, defined disbursement schedule, and clear documentation expectations make your program auditable and your school relationships manageable at scale.

- **Align billing cycles with scholarship timing**
  Schools manage their finances on billing cycles that may not match your disbursement schedule. Work with participating schools early to understand their billing expectations and align your payment timing accordingly. Schools that experience consistent, predictable payments stay in your program. Schools that experience delays or misalignment become a coordination problem.

- **Clarify how multiple funding sources will be applied**
  Many students will arrive at participating schools with a combination of FSTC scholarships, state program awards, and school-based financial aid. Schools typically make the determination about how these sources are applied to a student's account. Work with participating schools early to understand their billing practices and ensure your disbursement process aligns with how they post funds. Ambiguity here creates reconciliation problems for schools and confusion for families.

- **Communicate award status proactively**
  Schools play an active role in the scholarship lifecycle and need timely, consistent updates. They should know when awards are approved, when disbursements are coming, and when a student's eligibility changes. Build a communication calendar with scheduled touchpoints: award notifications, disbursement confirmations, renewal reminders, and mid-year status updates. Proactive communication builds the trust that keeps schools in your program.

Strategies and Best Practices (cont.)

- **Manage disbursements with precision**
  Every disbursement must be tied to a verified enrolled student, documented in a way that connects it to the donor contribution that funded it, and retained in a format that supports an audit. If your current disbursement process is manual or runs on disconnected systems, address that before January 2027.

- **Support schools without overreaching**
  Your school participation agreement should be clear about what your SGO requires, including enrollment verification, eligibility documentation, and disbursement acknowledgment, and equally clear about what it does not require. SGOs serve schools.

- **For faith-based organizations**
  Be explicit with participating schools about what the federal program does and does not require of them. Schools participating in your program are not waiving their institutional rights by accepting FSTC scholarships. Keeping schools informed and confident on this point is part of your responsibility as their SGO partner.

TIP!

Start with your existing school network

The schools already in your state program know your processes and trust your organization. Build your federal program with them first before expanding to new school relationships.

TIP!

Your school relationships are your program's reputation

Late disbursements, inconsistent communication, and confusing documentation requirements do not just frustrate schools. They spread. Build your school-facing operations to the standard of the reputation you want in the market.

COMPASS
FACTS

School Eligibility Visibility and Award Disbursement Tracking

FACTS Compass gives participating schools visibility into student eligibility and award status, supporting the communication and coordination that keeps programs running smoothly. Disbursement records, award documentation, and school-facing reporting are all managed within the same system used for application intake and eligibility verification.

[Request a FACTS Compass consultation]

Are you a school leader?
Visit our blog for a practical guide to partnering with an SGO: [How SGOs and Schools Partner to Expand Access to Education.]

SECTION 4

Action Steps Checklist

Print and Complete With Your Leadership Team

- Develop a standard school participation agreement outlining roles, expectations, disbursements, and documentation
- Define and implement a consistent onboarding process for new participating schools
- Align billing cycles with expected scholarship disbursement timing
- Define how multiple funding sources will be applied and communicated to schools
- Coordinate with schools on award timelines and amounts to prevent over- or under-awarding
- Evaluate whether your disbursement process is scalable, accurate, and audit-ready
- Confirm that participation agreements clearly define both SGO and school responsibilities
- For faith-based SGOs: develop clear communication to ensure schools understand their retained institutional rights
- Identify a primary point of contact at each participating school to support coordination and communication

SECTION 5

Family and Student Relationships

DESIGNED FOR

- Program Directors, Application Managers, and Operations Staff responsible for applications, income verification, award communication, and family support.

Every scholarship connects to a family that made a choice and a student whose path depends on that choice being honored. The family experience is where the impact of the program becomes real and where expectations for clarity, accuracy, and trust are highest. Delivering on that experience requires processes that are both rigorous and accessible, strong enough to meet compliance expectations and simple enough for families navigating this for the first time.

Key Responsibilities for Family and Student Relationships

- Design and manage an application process that is accessible, consistent, and audit-ready
- Verify household income against the 300% HUD AMI threshold for each student's region using a consistent methodology
- Collect and retain documentation that supports eligibility determinations and audit requirements
- Communicate award decisions clearly, promptly, and in accessible formats
- Manage scholarship renewals and annual eligibility re-verification

Strategies and Best Practices

- **Design your application for both families and auditors**
  A well-designed application serves both. For families: clear, manageable, and respectful of their time. For auditors: complete, consistent, and traceable. Ask only what you need. Make documentation submission as simple as possible. Record every decision, approval, denial, and waitlist placement automatically and tie it to the documentation that supports it.

- **Build income verification that is consistent and defensible**
  Every student must have household income verified against the 300% AMI threshold for their specific region, which is the federal ceiling for eligibility. Some SGOs design tiered award structures that prioritize lower-income families within that ceiling. Whatever approach your program takes, build a verification workflow that applies the same criteria to every application, documents the threshold and tier used and the determination reached, and retains those records in a system accessible for audit.

- **Communicate award decisions clearly and promptly**
  An award decision is a planning decision for families. Approve, waitlist, or incomplete: every status should be communicated in plain language with specific next steps. Build a communication workflow that triggers automatically at each decision point. If your program serves families whose primary language is not English, translate key communications. Accessibility is a program integrity issue, not just a values issue.

- **Manage renewals with intention**
  A scholarship that does not renew is as disruptive to a family as one that was never awarded. Re-verify income eligibility and enrollment annually and begin the renewal process early enough that families have time to respond. The statute reinforces this approach by establishing that returning students receive priority for renewal, followed by siblings of current recipients. Renewal is not just an operational consideration. It is embedded in how funds are expected to be allocated. A family that misses a renewal deadline because your process was unclear is a program failure, not a family failure.

TIP!

Income verification is your program's most important compliance function

Every award decision, audit record, and compliance report depends on getting income verification right. Invest in making this process automated, consistent, and fully documented before your first federal application cycle opens.

TIP!

Make the application experience reflect your mission

Families are trusting your organization with an important decision for their child. A confusing, burdensome, or unresponsive application process communicates something about your organization before a single scholarship is awarded. Streamline and automate wherever possible, and avoid asking families to provide the same information more than once. Design the experience you would want for a member of your own community.

What FSTC Scholarships Can Cover

Scholarships awarded through the Federal Scholarship Tax Credit can be used for a broad range of qualified elementary and secondary education expenses, including:

- Tuition and fees
- Academic tutoring
- Books, supplies, and required equipment
- Special needs services
- Room and board
- Uniforms
- Transportation
- Extended day programs
- Computer technology, software, and internet access required for school use

Expenses must be incurred in connection with enrollment or attendance at an eligible public, private, or religious K-12 school. Families should retain documentation of how scholarship funds are used.

COMPASS

FACTS

Application Intake, Eligibility Verification, and Award Management

FACTS Compass manages the core family and student workflow today: application intake with structured eligibility criteria, income verification, award management, and decision documentation that builds your audit trail as part of your normal workflow. The platform is actively expanding to include automated income verification against region-specific AMI thresholds as part of its FSTC readiness development. FACTS already works within many participating schools, which creates an opportunity to securely leverage data already collected through existing FACTS Financial Aid applications as the platform develops, reducing duplication and simplifying the experience for families. Talk to us about current capabilities and what is coming before January 1, 2027.

[Request a FACTS Compass consultation]

SECTION 5

Action Steps Checklist

Print and Complete With Your Leadership Team

- Map HUD-defined AMI thresholds for every region in your student population and align them to applicant households
- Design or evaluate your application process for simplicity, consistency, and audit-ready decision documentation
- Implement an income verification system that applies AMI thresholds consistently and retains complete, defensible records
- Build a family communication workflow triggered at each application decision point (submitted, incomplete, approved, waitlisted)
- Provide clear, plain-language guidance on required documentation, including what to submit and how to submit it
- Develop a renewal process with a timeline that provides families adequate notice and clear next steps
- Translate key materials into the primary languages of your program communities
- Establish a file retention protocol that supports compliance, reporting, and audit requirements

SECTION 6

Operations and Compliance

DESIGNED FOR

- Executive Directors, CFOs, Operations Directors, and Board Members responsible for financial management, compliance oversight, and program reporting.

Operations and compliance is the infrastructure that makes everything else possible, sustainable, and defensible. A scholarship program without strong operational infrastructure cannot scale without breaking and cannot survive an audit without scrambling. This section covers the areas every organization must have right before the federal program goes live: fund management, the 90% allocation requirement, audit readiness, compliance reporting, and multi-source coordination.

Key Responsibilities for Operations and Compliance

- Maintain segregated accounts for federal contributions with no commingling
- Monitor scholarship disbursements and administrative expenses against the 90% allocation requirement on an ongoing basis
- Build audit readiness into your operations and prepare to support formal audit and compliance review processes
- Generate integrated compliance reports connecting donor, eligibility, and disbursement data
- Coordinate multiple funding sources at the student level
- For multi-state or national SGOs: maintain state-by-state contribution tracking and designation systems

Strategies and Best Practices

- **Manage fund segregation as a daily practice**
  Federal contributions must be deposited into dedicated accounts immediately upon receipt, not reconciled after the fact. Every disbursement must be drawn from the correct account with complete documentation. Every administrative expense paid from qualified funds must be tracked against your 90% calculation. Auditors look at fund management practices first. Clean segregation from the start signals program integrity.
- **Track your 90% allocation rate monthly**
  The 90% scholarship allocation requirement is an ongoing operational constraint, not a year-end calculation. Know your allocation rate at all times. If you are trending below 90% mid-year, you have time to adjust. If you discover the problem at audit time, you do not. Build your budget around the 10% administrative ceiling as a binding constraint, not a target.
- **Build audit readiness into your annual calendar**
  Audit preparation should be a standing process with monthly reconciliation reviews, quarterly documentation reviews, a mid-year meeting with your auditor, and a structured year-end close. Organizations that approach the audit as a scheduled annual process rather than a reactive scramble have cleaner audits and cleaner programs.
- **Build integrated compliance reporting**
  Donor contribution records, student eligibility records, and disbursement records that live in separate systems create a compliance reporting problem at federal program scale. Assembling a complete audit trail manually from disconnected sources is labor-intensive, error-prone, and unsustainable at volume. Build or adopt platform infrastructure that connects these data sources before January 2027.

Strategies and Best Practices (cont.)

The practical test is simple: can your team generate a single report that connects a donation to a student award to a school disbursement, with verified eligibility documented at every step? If that requires pulling from three different systems and assembling the result manually, your reporting infrastructure is not ready. That is the problem to solve now.

- **Coordinate multiple funding sources at the student level**
  Many students will be eligible for the FSTC alongside state scholarship programs and school-based financial aid. Tracking total aid per student, ensuring funds are applied correctly, and preventing gaps or overfunding requires systems that can see across funding sources simultaneously. This is one of the most operationally complex aspects of implementation and one of the least understood until organizations are already managing it. Build your fund tracking infrastructure with multi-source coordination in mind from the start.

- **Plan for wallet and expense management as programs evolve**
  For SGOs supporting scholarships beyond tuition, including services such as tutoring, therapy, or enrichment, additional infrastructure will be required to manage how funds are accessed and used. This includes the ability to allocate funds to controlled accounts, track eligible expenses, and maintain visibility into transactions and remaining balances at the student level. This is an emerging area of the scholarship ecosystem and implementation models are still developing. Build your current infrastructure with this expansion in mind even if it is not an immediate requirement.

- **For multi-state SGOs**
  Contributions designated for a specific state must be tracked, managed, and reported separately from contributions for other states. Build state-by-state tracking infrastructure now. When Treasury publishes formal multi-state guidance, you will need to refine it, not rebuild it.

TIP!

Compliance is your program's credibility

In a federal program with high public visibility, SGOs that operate with clean, transparent compliance practices build the donor confidence, school trust, and family reliability that sustains programs over time. Compliance is not overhead. It is a competitive advantage.

TIP!

Document decisions, not just outcomes

Your audit record should show not just what your program did but why. An income verification file that shows the AMI threshold applied, the documentation reviewed, and the determination reached tells a complete story. A file that shows only the outcome raises questions. Every decision should be explainable to someone who was not in the room.

WATCH LIST

Multi-state operational requirements

Formal Treasury guidance on state-by-state contribution tracking, donor designation, and operational reporting for multi-state SGOs has not been issued. Build state-by-state infrastructure now. We will update this section when guidance is published.

Compliance Documentation, Structured Reporting, and Audit-Ready Records

FACTS Compass today supports application processing, eligibility verification, award management, and reporting within a single platform. The platform is actively building toward integrated compliance reporting that connects donor contributions, student eligibility, and school disbursements in one system, which is exactly the infrastructure gap most SGOs are trying to close before January 2027. Talk to us about where the platform is today and what is coming as FSTC readiness development continues.

Request a FACTS Compass consultation

SECTION 6

Action Steps Checklist

Print and Complete With Your Leadership Team

- Configure accounts and accounting systems to support fund segregation before accepting federal contributions
- Establish ongoing tracking of the 90% scholarship allocation requirement
- Build a budget that treats the 10% administrative ceiling as a binding constraint
- Establish a regular reconciliation and documentation review cadence (monthly and quarterly)
- Schedule a mid-year compliance and audit readiness review with your finance team and external advisors to assess documentation, reconciliation, and reporting readiness
- Evaluate whether your current systems can generate integrated compliance reports across donor, student, and disbursement data
- Confirm ability to track funds at the student and school level
- Build multi-source coordination into your fund tracking infrastructure
- For multi-state SGOs: build state-by-state financial tracking and donor designation systems now

Federal Scholarship Tax Credit Readiness Checklists

Use these checklists to assess readiness, identify gaps, and assign ownership across your organization or network. Each checklist is designed for a specific audience. Use the one most relevant to your role.

1. SGO Readiness Checklist

For existing SGOs preparing to operate under the FSTC

Program Eligibility and Positioning

- Verify your state has opted in
- Confirm inclusion on your state's approved SGO list
- Define your service area including geography, schools, and student populations

Eligibility and Compliance

- Map HUD AMI thresholds for your target regions
- Define income and household verification approach
- Establish age, address, and residency verification process
- Assign a regulatory owner to monitor IRS and Treasury guidance

Financial and Fund Structure

- Open segregated accounts for qualified contributions
- Model financial structure under different interpretations of the 90% rule
- Define how funds will be tracked, allocated, and reported
- Establish donor receipting and contribution tracking processes

Scholarship Design

- Define what expenses will be covered
- Establish award structure including amounts, criteria, and timing
- Align scholarship timing with school billing cycles
- Determine distribution model: direct pay, reimbursement, or wallet-based

School Partnerships

- Identify and begin engaging partner schools
- Define enrollment verification process with schools
- Align on payment timing and reconciliation processes
- Establish expectations for data sharing and communication

Systems and Operations

- Identify systems for applications, verification, and reporting
- Confirm ability to track funds at student and school levels
- Evaluate readiness to scale for applications, donors, and payments

Communication and Donor Strategy

- Develop communication plan for families, schools, and donors
- Prepare messaging on eligibility and participation
- Define donor outreach and education strategy

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Federal Scholarship Tax Credit Readiness Checklists

2. School Readiness Checklist

For schools preparing to participate in FSTC programs

Awareness and Positioning

- [ ] Learn how the FSTC applies in your state
- [ ] Identify SGO partners you will work with
- [ ] Define your role in supporting families and donors

Tuition and Financial Model

- [ ] Evaluate how the FSTC will integrate with tuition and financial aid
- [ ] Align billing cycles with expected scholarship timing
- [ ] Determine how multiple funding sources will be applied

Payments and Tracking

- [ ] Define how third-party payments will be received and posted
- [ ] Establish processes for tracking student awards
- [ ] Align internal systems for reconciliation and reporting

Enrollment and Verification

- [ ] Define process for enrollment verification with SGOs
- [ ] Establish reporting processes for student status changes

Family Support

- [ ] Prepare to guide families through multiple applications
- [ ] Add FSTC information to your website and communications
- [ ] Align messaging across admissions and finance teams

Community and Donor Engagement

- [ ] Educate your school community about the FSTC
- [ ] Identify opportunities to support donor awareness

Federal Scholarship Tax Credit Readiness Checklists

3. Ecosystem Coordination Checklist

For dioceses, associations, foundations, and state-level leaders

Strategy and Alignment

- Define your role in the ecosystem: coordinator, convener, or operator
- Align stakeholders on roles and responsibilities
- Identify gaps in SGO coverage or infrastructure

School Alignment

- Align schools on participation strategy and expectation
- Standardize guidance on enrollment, billing, and reporting
- Support consistent execution across schools

SGO Coordination

- Identify preferred SGO partners or models
- Align SGOs and schools on capacity and coverage
- Support development of new SGOs where gaps exist

Community and Messaging

- Develop unified messaging across stakeholders
- Coordinate communication to families, donors, and schools
- Support education across the ecosystem

Infrastructure and Scale

- Identify system and operational gaps across the ecosystem
- Support development of scalable implementation models
- Align partners on shared tools and processes

Federal Scholarship Tax Credit Readiness Checklists

4. Emerging SGO Checklist

For organizations considering becoming an SGO

Strategic Decision

- [ ] Determine whether becoming an SGO aligns with your mission
- [ ] Define your target population and geographic scope
- [ ] Assess demand and funding potential

Organizational Readiness

- [ ] Confirm 501(c)(3) public charity status
- [ ] Evaluate governance, staffing, and operational capacity
- [ ] Assign leadership ownership for program development

Financial Model

- [ ] Model revenue and expenses under the 90% requirement
- [ ] Define administrative funding strategy
- [ ] Assess financial sustainability at different participation levels

Program Design

- [ ] Define scholarship model including who you will serve and how
- [ ] Determine covered expenses and award structure
- [ ] Align program design with school participation

Infrastructure Planning

- [ ] Identify systems required for applications, verification, and fund management
- [ ] Determine whether to build, partner, or adopt existing infrastructure

Partnerships

- [ ] Identify partner schools and stakeholders
- [ ] Begin conversations with ecosystem leaders and SGOs
- [ ] Align on role within the broader implementation landscape

Successful FSTC implementation depends on clarity of roles, alignment across stakeholders, and readiness to operate at scale. These checklists are designed to help each organization take action within its role while contributing to a coordinated system.

Key Dates

Date	What It Means
January 1, 2026	States may begin submitting Form 15741 to opt in
2026	IRS and Treasury expected to publish proposed regulations
Before January 1, 2027	States must submit certified SGO lists
January 1, 2027	Contributions made on or after this date are eligible for the federal tax credit

Where to Stay Informed

For SGO formation and compliance guidance, consult legal and financial advisors familiar with Section 25F. IRS.gov and Treasury.gov for regulatory publications under Section 25F. EdChoice, NCEA, and ACSI for school choice policy and program updates.

Ready to Build the Infrastructure Your Program Needs?

If you are ready to build the operational infrastructure your program needs, FACTS Compass is built for this moment.

Explore the FACTS Compass vision. See a conceptual walkthrough of the platform we're building for FSTC program management.

Request a FACTS Compass consultation today. Talk through where your organization stands and how we can help.

This playbook reflects program requirements and regulatory guidance available as of March 25, 2026. IRS and Treasury have not yet published proposed or final regulations under IRC Section 25F. WATCH LIST items will be updated as guidance is finalized. This resource is provided for planning purposes only and does not constitute legal or tax advice. Consult qualified advisors for organization-specific compliance guidance.

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