ERN EDUCATION *Reform* NOW

FEDERAL SCHOLARSHIP TAX CREDIT

State-by-State Projections

OCTOBER 2026

The Federal Scholarship Tax Credit (FSTC) provides a federal 100% tax credit for donations up to $1,700 per individual taxpayer and $3,400 per joint taxpayer made to Scholarship Granting Organizations (SGOs). SGOs can then use these donations to support students in the form of tuition for private school, tutoring for public school students, and other eligible uses. As states consider whether to "opt in" to FSTC, we created this tool to help states estimate how much money they might each raise.

It's important to stress that high taxpayer participation rates will not happen overnight. Each state will need to experiment with different strategies to build awareness and participation, e.g. partnering with employers, enlisting tax preparers, running public campaigns, using local influencers, and more. We anticipate that some states will embrace FSTC and will work creatively to raise awareness, while some states will take a more passive approach. Regardless, it will take some time to build up participation by taxpayers.

We believe that many taxpayers who can fully offset their donation with a federal tax credit, a group we refer to as "Redirectors," will elect to donate the full amount to an SGO. For these taxpayers, making the donation under FSTC will essentially cost them nothing.[1] Since there is a dollar-for-dollar tax credit, the decision for them amounts to this: Do I send my money to the IRS general fund or do I redirect it to an SGO in my community (or in another state) that is doing important work? We suspect that as awareness of this program grows, many of these "Redirectors" will choose the latter.

For states that are proactive, creative, and persistent, participation rates well above the typical rates for state tax credit programs (roughly 2% to 3%) are likely. Over time, we believe that participation rates of 30% or more for "Redirectors" seem plausible.

State	Population, July 1, 2023 (A)	2023 Number of Tax Returns (B)	Estimated Potential $1700 "Redirectors" (C)	Estimated Potential $3400 "Redirectors" (D)	Potential Donations if All Redirectors Gave the Full Credit	Estimated Donations (15% Participation)	Estimated Donations (30% Participation)
Alabama	5,117,850	2,140,840	332,096	438,322	$2,054,858,000	$308,228,700	$616,457,400
Alaska	734,654	347,930	80,588	83,670	$421,477,600	$63,221,640	$126,443,280
Arizona	7,452,073	3,391,030	683,744	701,110	$3,546,138,800	$531,920,820	$1,063,841,640
Arkansas	3,069,856	1,292,190	175,770	251,900	$1,155,269,000	$173,290,350	$346,580,700
California	39,181,667	18,482,300	4,468,752	3,885,230	$20,806,660,400	$3,120,999,060	$6,241,998,120
Colorado	5,912,240	3,086,830	742,772	724,040	$3,724,448,400	$558,667,260	$1,117,334,520
Connecticut	3,641,369	1,822,410	451,040	440,558	$2,264,665,200	$339,699,780	$679,399,560
Delaware	1,035,354	507,390	109,214	114,068	$573,495,000	$86,024,250	$172,048,500
District of Columbia	682,559	348,640	154,850	48,330	$427,567,000	$64,135,050	$128,270,100
Florida	22,929,248	11,218,030	2,157,644	2,046,630	$10,626,536,800	$1,593,980,520	$3,187,961,040
Georgia	11,063,669	4,881,840	894,856	942,390	$4,725,381,200	$708,807,180	$1,417,614,360
Hawaii	1,434,950	695,470	158,948	150,000	$780,211,600	$117,031,740	$234,063,480
Idaho	1,970,497	884,660	133,280	218,736	$970,278,400	$145,541,760	$291,083,520
Illinois	12,633,389	6,100,250	1,383,334	1,354,976	$6,958,586,200	$1,043,787,930	$2,087,575,860
Indiana	6,881,373	3,241,920	550,760	702,982	$3,326,430,800	$498,964,620	$997,929,240
Iowa	3,214,739	1,482,000	267,560	380,616	$1,748,946,400	$262,341,960	$524,683,920
Kansas	2,949,749	1,366,100	231,424	326,450	$1,503,350,800	$225,502,620	$451,005,240
Kentucky	4,549,953	1,980,840	302,482	406,126	$1,895,047,800	$284,257,170	$568,514,340
Louisiana	4,598,777	1,932,540	308,198	348,134	$1,707,592,200	$256,138,830	$512,277,660
Maine	1,401,992	712,110	138,400	155,254	$763,143,600	$114,471,540	$228,943,080
Maryland	6,204,927	3,100,200	817,178	691,540	$3,740,438,600	$561,065,790	$1,122,131,580
Massachusetts	7,073,479	3,595,730	988,688	873,672	$4,651,254,400	$697,688,160	$1,395,376,320
Michigan	10,062,124	4,872,330	869,102	1,037,856	$5,006,183,800	$750,927,570	$1,501,855,140
Minnesota	5,752,998	2,902,640	631,438	745,854	$3,609,348,200	$541,402,230	$1,082,804,460
Mississippi	2,942,470	1,229,590	165,202	206,930	$984,405,400	$147,660,810	$295,321,620
Missouri	6,205,956	2,870,290	499,162	626,082	$2,977,254,200	$446,588,130	$893,176,260
Montana	1,130,612	553,910	98,502	125,134	$592,909,000	$88,936,350	$177,872,700
Nebraska	1,988,172	951,450	167,210	235,224	$1,084,018,600	$162,602,790	$325,205,580
Nevada	3,211,077	1,564,590	338,452	288,160	$1,555,112,400	$233,266,860	$466,533,720
New Hampshire	1,401,530	732,250	179,636	201,146	$989,277,600	$148,391,640	$296,783,280
New Jersey	9,395,315	4,654,080	1,139,562	1,110,978	$5,714,580,600	$857,187,090	$1,714,374,180
New Mexico	2,119,349	980,620	172,284	163,848	$849,966,000	$127,494,900	$254,989,800

State	Population, July 1, 2023 (A)	2023 Number of Tax Returns (B)	Estimated Potential $1700 "Redirectors" (C)	Estimated Potential $3400 "Redirectors" (D)	Potential Donations if All Redirectors Gave the Full Credit	Estimated Donations (15% Participation)	Estimated Donations (30% Participation)
New York	19,786,543	9,789,330	2,583,778	1,752,146	$10,349,719,000	$1,552,457,850	$3,104,915,700
North Carolina	10,871,849	4,923,710	874,046	1,063,218	$5,100,819,400	$765,122,910	$1,530,245,820
North Dakota	787,071	371,320	78,136	98,844	$468,900,800	$70,335,120	$140,670,240
Ohio	11,808,390	5,678,870	1,184,854	1,133,878	$5,869,437,000	$880,415,550	$1,760,831,100
Oklahoma	4,062,716	1,702,930	252,484	349,208	$1,616,530,000	$242,479,500	$484,959,000
Oregon	4,250,392	2,067,600	447,926	470,772	$2,362,099,000	$354,314,850	$708,629,700
Pennsylvania	13,009,406	6,301,140	1,297,452	1,417,548	$7,025,331,600	$1,053,799,740	$2,107,599,480
Rhode Island	1,101,183	570,860	140,780	113,538	$625,355,200	$93,803,280	$187,606,560
South Carolina	5,390,798	2,487,890	411,608	513,546	$2,445,790,000	$366,868,500	$733,737,000
South Dakota	917,739	444,890	78,248	112,034	$513,937,200	$77,090,580	$154,181,160
Tennessee	7,153,029	3,259,560	554,686	689,240	$3,286,382,200	$492,957,330	$985,914,660
Texas	30,719,247	13,671,450	2,501,062	2,813,664	$13,818,263,000	$2,072,739,450	$4,145,478,900
Utah	3,449,259	1,542,530	255,690	411,890	$1,835,099,000	$275,264,850	$550,529,700
Vermont	647,722	335,140	70,352	75,336	$375,740,800	$56,361,120	$112,722,240
Virginia	8,732,034	4,168,070	935,394	1,034,598	$5,107,803,000	$766,170,450	$1,532,340,900
Washington	7,838,655	3,781,890	957,368	1,006,448	$5,049,448,800	$757,417,320	$1,514,834,640
West Virginia	1,770,036	777,490	117,026	154,314	$723,611,800	$108,541,770	$217,083,540
Wisconsin	5,930,350	2,944,630	578,678	719,860	$3,431,276,600	$514,691,490	$1,029,382,980
Wyoming	584,666	282,340	52,944	71,654	$333,628,400	$50,044,260	$100,088,520
Total (National)	336,755,052	159,024,640	33,164,640	34,027,682	$172,074,006,800	$25,811,101,020	$51,622,202,040

Methodology

Redirectors

We wanted to identify the taxpayers for whom making a donation under FSTC would be the equivalent of simply redirecting their money from the IRS to a scholarship granting organization (SGO). As such, we identified taxpayers likely to owe at least the full credit in federal income tax. Using IRS Statistics of Income data for tax year 2023, we count three groups separately. The first is single filers and other non-joint filers, such as married filing separately, with adjusted gross income (AGI) above $50,000. The second is heads of household with AGI above $80,000. The third is joint returns with AGI above $85,000. See the "Estimated Redirectors" column for the detailed calculations.

(A) US Census Bureau (2023 Data): https://www.census.gov/data/tables/time-series/demo/popest/2020s-state-total.html
(B) US Internal Revenue Service (2023 Data): https://www.irs.gov/statistics/soi-tax-stats-historic-table-2
(C) See accompanying tab titled "% Redirectors"
(D) These taxpayers will decide whether to send $1,700 ($3,400 for joint filers) to the IRS or to redirect it to an SGO of their preference.

Why $50,000, $80,000, and $85,000 AGI?

We are intentionally conservative in setting our AGI thresholds. To choose them, we used IRS data for tax year 2017, the most recent year that reports dependents, to estimate how many dependents the typical return in each group has.[2] We then calculated the AGI at which a household with that many dependents would owe enough federal income tax to use the full credit. For single filers and other non-joint filers, we use $50,000. These filers average fewer than 0.1 dependents, and they typically reach $1,700 of federal liability at roughly $33,000 of AGI. For heads of household, we use $80,000. Those above that income average about 1.3 dependents, and they typically reach $1,700 of remaining federal tax liability after applying the child tax credit at roughly $65,000 of AGI. We use $80,000, which is close to the roughly $78,000 that a head of household with two children needs, to remain conservative. For joint filers, we use $85,000. Those above that income average about one dependent, and a typical couple reaches the $3,400 of liability needed to use the full credit at roughly $83,000 of AGI. In addition, our estimates do not count the donations that taxpayers with AGIs under these cutoffs might make; some might donate the full amount and some might donate less than that. After considering our various assumptions and estimates, we believe that the number of "Redirectors" we've calculated is a conservative (ie. low) estimate.

Estimated Donations

To calculate estimated donations, we assume that a given percentage of Redirectors will give the maximum credit, which is $1,700 for each non-joint return, including head of household, and $3,400 for each joint return. Note: for our purposes, Redirectors are, by definition, taxpayers who would incur no net cost when making a contribution. Since they already owe either $1,700 or $3,400 (joint filers), they would be able to make the contribution to a local SGO at no net cost. Our calculations assume, for the sake of keeping our estimates conservative, that unless a single filer has a tax liability of $1,700 or joint filers have a combined tax liability of $3,400, they will contribute nothing to an SGO. This has the effect of keeping our estimates lower than they otherwise would be.

Estimated "Redirector" Participation Rate

For several reasons, it is hard to estimate the expected "Redirector" participation rate. While existing state-level tax credit programs have relatively low participation rates, hovering in the 2% to 3% range, there is reason to believe that participation rates in FSTC might be higher. Here are some reasons worth considering:

- **Apples to Oranges**
  Unlike FSTC, state tax credit programs sometimes carry aggregate caps and allow for very large individual contributions. For example, Illinois's program permitted single donations of up to $1,000,000 but capped total credits at $75 million. That created a rational incentive for Scholarship Granting Organizations (SGOs) to focus primarily on a handful of high-net-worth donors, rather than building broad-based participation. As a result, participation rates by the general taxpayer population stayed low, even if total dollars raised were significant.

  FSTC is structured differently. With a maximum credit of $1,700 per non-joint filer and $3,400 per joint filer, it is not

possible to rely on a few mega-donors. To succeed, SGOs must raise money at scale, from ordinary taxpayers, at household-level amounts. This structural feature changes the incentive system and makes widespread participation a necessity, not an afterthought.

Similarly, it is possible, if not likely, that FSTC will allow for more leeway than state tax credit systems in the kinds of programs that SGOs can design. Some might provide tuition support for private schools, some might provide tutoring support for public school students, while others might take markedly different, creative approaches. This flexibility might lead to programs that appeal to local donors and drive participation upward.

- **FSTC's National Scale and Visibility**
  Unlike fragmented state programs, FSTC is a large federal program that may receive broad media coverage and attract public attention. Aside from helping to raise the number of taxpayer participants, the structure of FSTC is likely to also increase the number of SGOs. Each SGO will have the incentive to proactively market the program and solicit contributions.
- **Supportive Federal Roles**
  A proactive, supportive Treasury Department could simplify the claiming process, work with tax preparers, and run awareness campaigns that may make participation more likely.
- **Governor Leadership**
  Governors who opt in will have a strong incentive to promote the program locally, potentially boosting taxpayer awareness and participation.
- **Public School Participation**
  The fact that public schools can benefit through aligned SGOs means that even families loyal to their local public schools may be encouraged to redirect their tax dollars in this way.

How Our Numbers Compare

The American Federation for Children (AFC) Growth Fund published its own estimate in September 2026. AFC simulates 2027 tax returns, growing incomes about 18% and the number of filers about 3% from 2023. Every filer with any federal tax liability is counted as an eligible donor, and each gift is capped at the smaller of $1,700 or the filer's liability. In October, AFC updated its estimates to include the $3,400 joint filer credit and now calculates $263.0 billion of capacity at 100% participation. While AFC's methodology and ours differ, we believe they are both based on reliable data and a thorough, thoughtful analysis. Users of either of our set of figures can be confident in the numbers they cite.

Endnotes

1 There is, in fact, some nuance here. For states that have their own tax credit programs, the proposed federal regulations subtract any state credit from the donation before applying the federal cap. A taxpayer who claims a state credit for the same gift therefore receives a federal credit equal to the smaller of $1,700 per taxpayer or the gift minus the state credit. While this may lower our projections, few taxpayers currently use state programs, so we make no adjustment.

2 Dependents per return are based on estimates calculated from IRS Statistics of Income Tables 1.2 and 2.4 for tax year 2017. We weighted using the number of 2023 returns in each income range. Thresholds use 2026 tax rates and standard deductions and assume each dependent qualifies for the $2,200 child tax credit. Above $200,000 of AGI we assumed the average from the $100,000 to $200,000 range for single filers and heads of household, and about one dependent for joint filers.