

New York Will Officially Opt Into the Federal Scholarship Tax Credit Program

By Michael Trapp, CPA, Partner

On October 9, 2026, Governor Kathy Hochul announced that New York would officially opt into the Federal Scholarship Tax Credit Program (the Program). The Program was created through the One Big Beautiful Bill Act (OBBBA) and could expand scholarship funding options for independent schools and increase access to private education for eligible families beginning in 2027.

A Refresher on the Federal Scholarship Tax Credit Program

The Program provides a \$1,700 nonrefundable federal income tax credit for qualifying cash contributions from individuals to Scholarship Granting Organizations (SGOs). Married couples filing jointly can claim up to \$3,400 based on each individual's amount donated. Scholarships from SGOs can support qualified K-12 education expenses, which include private school tuition.

An SGO must be a public charity and provide scholarships to at least 10 students who do not all attend the same school. Students are eligible if their household income from the prior year was less than 300% of the area median gross income, adjusted for family size.

Proposed Regulations Released

The U.S. Treasury Department and the IRS recently released temporary and proposed regulations which provided more guidance as to the implementation and execution of the Program. New York was waiting on the proposed regulations to verify that support from SGOs could go to both private and public schools before opting into the Program.

The proposed regulations establish that state participation is required to be elected annually. States that opt in must submit the election by January 1, 2027, and will be required to provide a listing of qualified SGOs to the IRS by February 15, 2027. New York expects to file the election within the next several weeks, well in advance of the January 1, 2027, deadline.

Donors giving to SGOs must designate their contribution as for the Program and the SGO must deposit those donations into a segregated account specifically for use in scholarship grant making activities. The proposed regulations also provide conditional transition procedures for new organizations filing to become an SGO and organizations pending recognition of tax-exempt status.

Potential Impact on Your School

The Program could allow additional scholarship funding to reach private education and make enrollment more affordable. Each school needs to determine if the funding from SGOs will result in increased enrollment, can replace current school-funded aid or add to the aid already provided through regular contributions or endowments.

If a school believes that this type of funding could be beneficial, they will want to establish relationships with SGOs that are already in operation or review the opportunity of forming an SGO with other like-minded institutions. If your school is thinking of creating a shared SGO with one or more schools, important issues to consider include:

- Board composition
- Criteria for scholarships and review of eligibility
- Sustainability of funding
- Software needed for donation and scholarship grant tracking

Next Steps for Your School

In reviewing the proposed regulations and thinking about the Program's possible effect, school leaders should:

- Review the costs and responsibilities of creating a new SGO against joining an existing SGO.
- Monitor their state's participation and be aware of the release of the final regulations from the U.S. Treasury Department and the IRS.
- Discuss their current scholarship funding sources and the integration of SGO funding, either as supplemental aid or as a replacement for current school-funded aid.

Contact Us

If you have any questions about the Federal Scholarship Tax Credit Program or need assistance, our [Independent School](#) practice team stands ready. Please contact your PKF O'Connor Davies client service team or:

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