

Public Funds for Private Schools: What Tennessee Advocates Should Know About the Federal Tax-Credit Voucher.

In the 114th General Assembly multiple bills, including administration bills [HB2532/SB2247](#)¹ and [HB2187/SB2206](#), have come forward requiring Tennessee to opt-in to the Education Freedom Tax Credit program (also known as the federal tax-credit voucher). The new program is unprecedented in its scale and threatens education equity across the nation, including in Tennessee. Advocates should be concerned about:

- The financial and academic accountability and transparency of the program
- Tennessee's ability to select, oversee, and set additional requirements for Scholarship Granting Organizations (SGOs)
- The risk of worsening educational disparities across income between and within school systems

These reasons and more are why this large-scale divergence of taxpayers' dollars is deeply concerning. At [EdTrust-Tennessee](#), we believe that public funds — including those that donors would otherwise pay in income taxes — should exclusively fund public schools.

Below we provide insight into some common questions about the federal tax-credit program, and what it means for equitable opportunities for students across Tennessee's school systems.

How does the federal tax-credit voucher program work?

After a state has opted-in, meaning they voluntarily agree to participate in the tax credit and identify qualifying SGOs, individuals can receive a 100% credit on their federal tax bill for contributions of up to \$1,700 per year made to non-profit SGOs. These SGOs are approved by the state to distribute donated funds to eligible students, or students that meet an income requirement of 300% of area median income. The funds administered by SGOs are available for a myriad of "qualified education expense(s)," including tuition for private and religious schools, books, curricular materials, and tutoring.

Other states already administer state tax credit voucher programs and have an existing policy and oversight infrastructure in place for tax credit programs, but Tennessee does not. As a result, should Tennessee participate in the new federal tax credit program, the policy infrastructure and oversight needs are likely to be significant.

¹ The original HB2532/SB2247 expands Tennessee's universal voucher program from 25,000 maximum seats to 40,000. It also requires the governor to opt-in to the federal tax-credit program. However, a proposed House amendment (013975) deletes the requirement to opt-in to the program.

What is a Scholarship-Granting Organization (SGO)?

A Scholarship-Granting Organization (SGO) is a non-profit entity that is approved to distribute donated funds to eligible students. Although the extent of the state's role in administering the program once it opts-in is still not clear, at minimum, Tennessee must approve the non-profit entities that will administer funds to students. These entities could be in-state or multistate. It is up to Tennessee to determine a process to certify eligibility and approve SGOs as well as ensure transparency. In doing so, it is likely the state will assume administrative costs to approve eligible SGOs, ensure oversight, and reduce fraud.

What steps can Tennessee take to ensure fairness, accountability, and transparency through SGO selections?

A Scholarship-Granting Organization (SGO) is a non-profit entity that is approved to distribute donated funds to eligible students. Although the extent of the state's role in administering the program once it opts-in is still not clear, at minimum, Tennessee must approve the non-profit entities that will administer funds to students. These entities could be in-state or multistate. It is up to Tennessee to determine a process to certify eligibility and approve SGOs as well as ensure transparency. In doing so, it is likely the state will assume administrative costs to approve eligible SGOs, ensure oversight, and reduce fraud.

Ensure funds benefit public schools.

The most important step Tennessee could take in ensuring fairness is making sure public schools have a chance to benefit from the program since the program is funded through public funds. That means ensuring that selected SGOs provide services that benefit public schools, such as tutoring, wrap-around supports, after school programming, and other supports.

Application, oversight, and financial procedures should protect students.

It is essential that at minimum Tennessee establishes a fair and thorough application process to determine an organization's fiscal standing and credibility. The process should also require all donors to a multistate organization to designate the state in which they want their qualified contributions to be used, thus providing donors assurances that funds are going to the state the donor intended.

Safeguard public funds by holding SGOs accountable.

Tennessee should hold SGOs accountable to ensure the public funds they receive are used responsibly and as intended. An annual audit, data collection and reporting are simple steps that should be required of any participating SGO. SGOs should also maintain separate accounts for all contributions made for the purpose of scholarships funded by the federal tax credit. Lastly, Tennessee should require SGOs to ensure that 90% of all contributed funds by donors intending to receive the federal tax credit go directly to students.

Make public reporting a requirement for a transparent program.

Tennesseans should know how their dollars are being spent. Public lists of participating SGOs and schools is one example of transparency that the program could easily implement. Through SGOs, private schools, and other participating organizations, the state must also collect and publicly report data disaggregated by student characteristics annually regarding outcomes such as TCAP testing, graduation, attendance, the prior year's enrollment, and retention.

How will Tennessee schools be affected by the federal tax-credit voucher program?

States have to opt-in to participate in the federal tax-credit program. HB2532/SB2247, HB2187/SB2206, and other bills would require Tennessee’s governor to opt-in before the end of 2026. Additionally, Tennessee has already implemented a universal voucher program that has [disproportionately benefited students](#) in wealthier areas and directed public funds to private schools. The combination of these two programs has implications for public school enrollment, public school funding, and equal access for students seen as more expensive to teach, such as students with disabilities and English learners.

Who will determine which expenses are eligible for the federal tax-credit voucher program?

Federal and state guidance will determine which educational expenses are applicable via the federal tax-credit program. For instance, [USDOE](#) has shared that the scholarships “can be used for any qualified education expense” and the expectation that the uses of the scholarships will vary with some influence based on the focus of an SGO.

How could this interact with Tennessee’s existing voucher programs?

Given the recent creation of Tennessee’s statewide voucher program and the governor’s expressed desire to expand the program, it is possible that the federal tax-credit program will work in tandem with Tennessee’s Education Freedom Scholarship program. Expanding vouchers is harmful to public schools because it directs public funds to private institutions.

How could the federal tax-credit voucher program affect Tennessee’s public education funding?

The federal tax-credit program is funded via federal dollars. Tennessee public schools’ reliance on federal dollars has been disproportionately higher than other states in recent years — the Tennessee’s General Assembly’s Federal Education Deregulation Cooperation Task Force found that Tennessee is 16th in statewide per-pupil federal funding. For every dollar that goes to an SGO, the federal government pays to the program as a tax-credit. And because the program has no cap, the projected cost is more than Title I and IDEA — two of Tennessee’s largest federally funded programs ([The Institute of Taxation and Economic Policy](#)).

Who benefits from the federal tax-credit voucher program?

The federal tax-credit program could further educational inequities because it greatly benefits wealthier families. While there is an income eligibility requirement for students coming from a household with an income no greater than 300% of the area's median gross income (AGMI), this threshold is high enough in many areas to make the program nearly "universal." It would also allow many middle- and upper-middle-income families to participate. For instance, [300% AGMI for a family of four in fiscal year 2025](#) in Tennessee counties Cannon, Cheatham, Davidson, Dickson, Robertson, Rutherford, Sumner, Trousdale, Williamson, and Wilson Counties was \$344,400. Additionally, the federal tax-credit program could be used to expand the universal voucher program and those scholarships have already been shown to [concentrate in wealthier areas and amongst current private school students](#).

What other resources are available to learn more about the federal tax-credit voucher program?

Ed Trust Resources:

- [EdTrust Comment Urges State Discretion, Strong Transparency and Accountability for New Federal School Voucher Program](#)
- [Federal Focus, Texas Lens: Voucher Tax Credits and the 2026 Budget](#)
- [What The Federal Voucher Program Means for Students in Your State](#)
- [\[webinar\] Federal Focus, Tennessee Lens: How Federal Vouchers and the Earnings Premium Framework Threaten Educational Opportunity](#)

You can use this tool to explore the income cut-off for every county. [Federal Tax Credits for Scholarships \(FTCS\) Income Levels \(FY25\)](#).

The [Public Funds Public Schools Webpage](#) has several resources related to vouchers.

How can I share my concerns about Tennessee's participation in the federal tax-credit voucher program?

Tennessee has not opted-in to the federal tax-credit program yet. HB2532/SB2247 and HB2187/SB2206 would require the governor to opt-in before 2027. Advocates can [contact their legislator](#) and [Governor Lee](#) to share concerns.

Question about this resource? Contact Nikkolette Hunter at nhunter@edtrust.org