

The Public School Impact

Lessons from Arizona's Tax Credit Scholarship Experience

Executive Summary.

- Arizona's educational tax credit programs – which lets donors elect between donating to public schools or to nonpublic school SGOs – provide **a case study that's highly analogous to the Federal Tax Credit Scholarship Program.**
- In 2024, **188,787 Arizona taxpayers contributed to public schools** through the Public School Tax Credit program, compared with **75,722 taxpayers who contributed to nonpublic school** Scholarship Tuition Organizations.
 - That's a ratio of approximately **2.5 public school donors for each 1 nonpublic school SGO donor.**
- Extrapolating from Arizona's experience, **we can expect roughly 70% of donors under the Federal Tax Credit Scholarship Program to direct their donations to SGOs serving public school students.**
- Education Reform Now projects **\$12 billion or more in annual donations under the Federal Tax Credit Scholarship program.**
- If those projections are correct and the trends in Arizona hold nationwide, then **about \$8.6 billion would flow to public school students under the new federal scholarship program.**
 - That's more than the federal government allocated for Title II, Title III, and Title IV combined in FY2025-26.

I. Federal Scholarship Tax Credit Program Overview.

In July 2025, Congress created a new Federal Scholarship Tax Credit program for K-12 public, charter, and nonpublic school students. Starting in 2027, the program provides a federal tax credit of up to \$1,700 annually for individuals who donate to a Scholarship Granting Organization (SGO).

SGOs are nonprofit organizations that collect donations and award scholarships to eligible students. To qualify, an SGO must spend at least 90 percent of its revenues on scholarships. Eligible students must attend a K-12 school, reside in a participating state, and have a family income below 300 percent of the local Area Median Income.

Scholarships may be used for a broad range of educational expenses, including private school tuition, tutoring, test preparation, afterschool enrichment programs, transportation, educational technology, supplemental special education services, school uniforms, and other educational supports. As a result, students attending public and charter schools may benefit substantially from scholarship awards.

Because any nonprofit organization may establish an SGO, including organizations affiliated with public schools, charter schools, nonpublic schools, or other educational stakeholders, understanding donor behavior is critical. The amount of funding ultimately benefiting public school versus nonpublic school students will depend largely on how taxpayers choose to direct their contributions.

II. Arizona's Tax Credit Scholarship Programs Overview.

Arizona provides one of the closest existing analogues to the federal scholarship tax credit program because taxpayers can their direct contributions toward public school educational purposes and/or scholarships for students attending nonpublic schools. Arizona has offered both options since 1998.

Arizona Public School Tax Credit Program.

Arizona's Public School Tax Credit program provides taxpayers with a dollar-for-dollar state income tax credit for donations to public and charter schools. Taxpayers can give up to \$200 per year (\$400 for a couple filing jointly) and receive an equal tax credit against their state taxes.

Participating schools may use contributions for educational purposes such as standardized testing fees, extracurricular activities, character education programs, meal programs, health supplies, playground equipment, and other student supports. Many of these uses are similar to those permitted under the federal scholarship tax credit program.

According to the [2024 Public School Tax Credit report](#) published by the Arizona Department of Revenue, a total of 188,787 donations were made to public schools using this tax credit program, with an average donation of \$219. 164,325 taxpayers donated to traditional public schools and 24,462 taxpayers donated to charter schools.

Arizona Original Individual Income Tax Credit Program.

Arizona's Original Individual Income Tax Credit program provides taxpayers with a dollar-for-dollar state income tax credit for donations to certified School Tuition Organizations (STOs). In 2024, individual taxpayers could contribute up to \$731 (\$1,462 for a couple filing jointly) and receive an equivalent tax credit against their state taxes.

STOs award scholarships to students attending eligible nonpublic schools. To qualify, STOs must devote at least 90 percent of tax credit contributions to scholarships and comply with state reporting and accountability requirements.

According to the [2024 School Tuition Organization Tax Credit report](#) published by the Arizona Department of Revenue, a total of 75,722 donations were made to STOs using this tax credit program in 2024, with an average donation of \$915.

III. Analysis and Nationwide Implications.

Arizona's public and nonpublic school tax credit programs have operated side-by-side for three decades, offering a useful case study for the Federal Tax Credit Scholarship program.

In 2024, 188,787 donations were made to Arizona's Public School Tax Credit program, compared with 75,722 Original Individual Income Tax Credits made for contributions to School Tuition Organizations. That reflects a rate of roughly 2.5 public school contributors for every one contribution to a nonpublic school scholarship organization – or 71% of donations going to benefit students in public schools.

While Arizona's programs are not identical to the federal scholarship tax credit program (see the Consideration and Limitations section below) they provide one of the few large-scale examples of taxpayer behavior when their tax credits may be directed toward either public or nonpublic school educational purposes. The observed 2.5-to-1 participation ratio offers a useful benchmark for estimating how taxpayers may allocate contributions under the new federal scholarship tax credit program.

If that **2.5:1 ratio** holds true in the federal scholarship tax credit program, then of the \$12B annually that [Education Reform Now \(ERN\) projects](#) could be available nationwide, about \$8.6B would go to public school students. For reference, that's more than all the Title II (\$2.2B), Title III (\$0.9B), and Title IV (\$2.7B) education funding in the FY2025-26 federal budget.

IV. Considerations and Limitations.

There are limitations to using Arizona's tax credit programs to extrapolate how taxpayers may allocate contributions under the federal scholarship tax credit program.

First, Arizona provides significantly larger tax credits for donations supporting scholarships (\$731 per taxpayer) than for donations supporting public schools (\$200 per taxpayer). As a result, despite having more donors the total funding for public schools in Arizona in 2024 (\$41.4M) was less than the funding available under the Original Individual Income Tax Credit Program (\$68.3M). However, this distinction should not be relevant for the federal program, which provides the same maximum tax credit to donors regardless of which SGO they support.

Arizona also has a slightly smaller share of students enrolled in nonpublic schools – and therefore a smaller share of nonpublic school supporters – than the nation as a whole. Based on [National Center for Education Statistics data](#), approximately 94 percent of Arizona students attend public schools and 6 percent attend nonpublic schools. Nationally, approximately 91 percent of students enrolled in public schools and 9 percent enrolled in nonpublic schools.

If that translates into a higher rate of donations to nonpublic schools under the Federal Scholarship Tax Credit program, then the proportion of donations to public school students could potentially fall as low as 62.5%. However, since all donations are completely independent and the program is uncapped, the total amount of funding to public schools would not go down as a result – only the proportion.

Participation rates under the federal program will also depend on the actions of stakeholders. Governors, school districts, charter school networks, labor unions, and other organizations may actively encourage or discourage participation based on policy preferences and political considerations. As a result, taxpayer participation may vary substantially from state to state.

Finally, because the Federal Tax Credit Scholarship program is new, public school focused SGOs may need time to develop programs and identify the most effective uses of scholarship funds. Public school participation may therefore be lower in the program's early years until public schools, SGOs, and families become familiar with the program.

Conclusion.

Arizona's experience suggests that when taxpayers are given the opportunity to direct tax creditable donations to either public schools or nonpublic school scholarships, about 70% choose public school programs. If similar patterns emerge under the federal scholarship tax credit program, then a substantial majority of scholarship funding nationwide would ultimately benefit public school students.

About Teach Coalition.

Teach Coalition, a division of the Orthodox Union, was founded in 2013 to advocate for government funding for Jewish schools.

The Teach Coalition Office of Jewish Education Policy and Research was founded in 2023 to advance the Teach Coalition public policy advocacy work and the Jewish community's understanding of the U.S. Jewish education system.

About The Authors.

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