New Jersey Policy Institute

Federal Education Freedom Tax Credit Policy Fact Sheet

What Is the EFTC?

The Federal Education Freedom Tax Credit (EFTC) is a new federal program designed to expand educational opportunity by encouraging private donations that fund K–12 scholarships.

Beginning in 2027, taxpayers will be able to receive a dollar-for-dollar federal tax credit of up to $1,700 for donations made to approved nonprofit Scholarship Granting Organizations (SGOs).

These organizations will then award scholarships to eligible students, helping families pay for education-related expenses such as tuition, tutoring, books, and specialized services.

Importantly, the program relies on voluntary private donations rather than government spending.

How does the Program Operate?

SGOs must meet several federal requirements, including:

- operating as 501(c)(3) nonprofit organizations
- distributing scholarships to multiple schools and students
- using at least 90% of donations for scholarships.

IMPACTS AND IMPLICATIONS

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WHAT DOES THE EFTC DO?

Expands educational opportunity

The program allows families to access scholarships funded by private donations that can be used for education expenses such as tuition, tutoring, and specialized services.

Supports low- and middle-income families

Students are eligible if their household income is up to 300 percent of the area median income, meaning many working- and middle-class families can qualify.

Encourages private investment in education

Taxpayers receive a federal tax credit for donations made to scholarship organizations, creating an incentive for individuals and businesses to support students.

Allows flexible education options

Scholarships can support a variety of learning environments, including private schools, tutoring and academic support for all students, specialized services for students with disabilities and homeschooling or hybrid education models

WHAT THE EFTC DOES NOT DO

1 Require New State Spending

The program is funded through private donations, not state budgets or taxpayer-funded appropriations.

2 Require States to Participate

States must opt into the program. If a state does not participate, students in that state will not receive scholarships.

3 Replace Public Schools

The program does not change how public schools are funded or operated. It simply creates an additional scholarship option for families seeking alternative or enhanced educational opportunities. Participation is entirely voluntary

THE BIG QUESTION FOR NJ

Are we willing to allow New Jersey taxpayers to fund scholarships for students in other states while New Jersey families receive none of the benefits?

The Bottom Line

The New Jersey Policy Institute encourages Governor Sherrill to opt New Jersey into the federal Education Freedom Tax Credit program. The program relies on private donations—not state spending—to fund scholarships that expand educational opportunity for families. Opting in would ensure New Jersey families can benefit from this federal initiative rather than seeing those opportunities flow exclusively to students in other states.

RESOURCES

DOE/TREASURY FACT SHEET

INVEST IN ED OPT-IN TRACKER

SUBSCRIBE TO NJPI