IDAHO CENTER for FISCAL POLICY

What You Need to Know About the New Federal School Voucher Regulations

OCTOBER 2026
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Note: *These regulations are not final, and additional guidance is still forthcoming. For instance, Treasury could still make changes to either rule in response to public comments, which must be submitted by Dec. 1. The public hearing for proposed regulations will be held on Dec. 15. Also, Treasury is expected to issue separate guidance on what qualifies as an eligible expense. The Center will continue monitoring changes and providing updates on the program.*

Key Takeaways:

- The federal school voucher program could cost significantly more than originally estimated. New Treasury projections suggest the program could reduce federal revenue by as much as $26 billion annually by 2030, compared to earlier estimates of approximately $3 billion to $4 billion per year.

- The program is not targeted to low-income families. Families earning up to 300 percent of their area's median income can qualify for scholarships. In Idaho, this could include families earning over $350,000 annually, depending on where they live.

- States have limited authority to oversee participating scholarship granting organizations (SGOs). The new regulations restrict states from establishing additional accountability requirements for the SGOs distributing federal vouchers, raising concerns about transparency and the use of public dollars.

- Students participating in the program are not guaranteed the same protections as public school students. The federal program does not require participating private schools to provide the same civil rights protections or educational services available to students in public schools.

Overview:

The One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, created the nation's first federal school voucher program, known as the Federal Scholarship Tax Credit (FSTC). Beginning in 2027, tax filers can receive a dollar-for-dollar federal tax credit of up to $1,700 for single filers and $3,400 for joint filers for contributions to private scholarship granting organizations (SGOs). These organizations can retain up to 10 percent of contributions and distribute the remaining funds as vouchers to cover private school tuition and other privately provided educational expenses.

In a sharp departure from the role the federal government currently plays in K-12 education funding, which traditionally supports public schools by targeting resources to students from low-income families and students with disabilities,[1] the new program directs federal tax benefits toward privately administered vouchers. The program also provides a more generous tax incentive for donations to SGOs than is available for other charitable contributions.[2]

States must decide each year whether to participate in the program. In early 2026, Governor Brad Little issued an executive order[3] declaring Idaho's intent to participate, and the Idaho Legislature passed House Bill 731[4] to opt the state into the program. To participate, states must submit an election form to the Internal Revenue Service (IRS) and certify a list of eligible SGOs. Idaho has already submitted its election form,[5] and the new federal regulations establish the process for certifying participating SGOs.

On October 1, 2026, the U.S. Department of the Treasury released new regulations establishing how the program will operate. The regulations include temporary regulations governing the program's launch in 2027 and a proposed rule providing additional guidance for future years.[6] While the regulations clarify how states and SGOs can participate, they leave significant concerns about student protections, accountability, and oversight unaddressed.

For more information on how the federal school voucher program works, read our earlier analysis.[7]

New Treasury Projections Show Much Higher Cost for Federal School Voucher Program

The federal school voucher program could reduce federal tax revenue by significantly more than originally estimated. When Congress passed the program in 2025, the Joint Committee on Taxation estimated it would cost approximately $3 billion to $4 billion annually.[8] New projections from the U.S. Department of the Treasury suggest the program could be substantially more expensive.

In October 2026, the Treasury projected that tax filers could contribute nearly $26 billion annually to SGOs by 2030.[9] Because qualifying contributions are eligible for a dollar-for-dollar federal tax credit, these contributions could result in a comparable reduction in federal revenue if tax filers claim the full value of their contributions. Under that assumption, the program could cost approximately 6.5 times the original annual estimate.[10]

Unlike traditional federal education funding, which is appropriated by Congress, the program operates through the federal tax system. As participation grows, the cost of the tax credit could also grow, reducing federal revenue available to support public services and other priorities.

Federal School Voucher Program Is Not Targeted to Low-Income Families

The federal school voucher program allows families with high incomes to qualify for scholarships to cover private school tuition and other educational expenses. Under the program, students are eligible if their family's income does not exceed 300 percent of the area median income (AMI).[11] The Treasury estimates that 96 percent of families in participating states will be eligible to receive a voucher. [12]

For example, in Kootenai County, which has the second highest concentration of private schools in the state,[13] the area median income (AMI) is $103,500. Using that figure, a family earning up to $310,500 could qualify for a federal voucher.[14] This broad eligibility means the program is not targeted at families with low incomes.[15]

The federal program also has a much higher income eligibility threshold than Idaho's state school voucher tax credit. Idaho gives priority to families earning up to 300 percent of the federal poverty guidelines, or $96,450 for a family of four in 2026.[16] However, families earning above that amount may also qualify if funding remains available after the initial application period.

	Eligibility Criteria	Family of Four
Federal School Voucher Program (Kootenai County, ID)	300% AMI	$310,500
Idaho School Voucher Program	300% FPG	$96,450
Note: Federal eligibility varies by area and household income. Idaho's threshold determines priority for awards; families with higher incomes may qualify if funding is available.		

Experience with existing state voucher programs suggests that many scholarships could go to families whose children already attend private schools. A Center on Budget and Policy Priorities analysis found that most students receiving state school vouchers were already attending private schools or being homeschooled, rather than transferring from public schools. For example, 86 percent of Alabama students receiving private school vouchers had never enrolled in public school.[17]

Students Participating in the Federal Program Are Not Protected from Discrimination

The federal voucher program does not prohibit discrimination by either SGOs or private schools receiving vouchers. The regulations fail to mandate that students who use vouchers at private schools have the same civil rights protections as students in public schools. The new regulations do not establish additional safeguards against discrimination based on race, sex, religion, disability, or other characteristics.[18] Unlike public schools, private schools participating in voucher programs may have admissions and disciplinary policies that exclude certain students.

Students with disabilities face particularly significant risks. When families use vouchers to enroll their children in private schools, students lose important protections guaranteed under the Individuals with Disabilities Education Act (IDEA), including the individual right to a free appropriate public education in the least restrictive environment. They also lose certain protections related to discipline, special education services, and the ability to challenge decisions about their education. Although some federal disability protections may still apply, private schools are not required to provide the same services and accommodations as public schools. [19]

The regulations also restrict states from imposing additional requirements on participating SGOs, including certain requirements to protect students from discrimination. As a result, states have limited authority to establish additional safeguards through the federal voucher program.[20]

New Regulations Limit State Oversight and Accountability

The new federal regulations limit states' ability to oversee the SGOs that distribute vouchers. States must certify all SGOs that meet federal requirements and cannot impose additional conditions for certification.[21] For example, states cannot require participating private schools to be accredited or demonstrate academic performance through standardized test scores as a condition of the federal program. States also cannot require SGOs to prioritize scholarships for low-income students or to serve every region of the state.

Although the proposed regulations establish financial reporting and auditing requirements for SGOs, they do not require the same level of transparency about student outcomes as public schools. This limits states' ability to evaluate whether participating students are receiving a quality education.[22] Instead, the regulations rely on SGOs to voluntarily share information about their performance. As the regulations state, "The Treasury Department and the IRS assume that SGOs will publicize their particular missions, the scope of their scholarships for eligible students, and their successes in achieving better student outcomes, in order to attract more qualified contributions from taxpayers supportive of their mission." [23]

What's Next for Idaho?

Idaho has already taken steps to participate in the federal voucher program beginning in 2027. As the state prepares to certify participating SGOs, the new regulations leave Idaho with little authority to establish additional safeguards. Without stronger requirements for student protections and educational accountability, questions remain about how the program will serve Idaho families and how the use of federal tax dollars will be evaluated.

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