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Federal Tax Credit Private School Voucher Program: State Requirements and Potential Unfunded Costs

While providing states with next to no authority the Federal Tax Credit Private School Voucher Program does impose new, unfunded costs to opt-in states. This document summarizes the actions a participating state would be required to take under the regulations proposed on October 2 and identifies the types of costs those duties could create. Cost estimates are based on implementation requirements. These are only a subset of costs that could be incurred by states. Additional negative funding, equity, and civil rights impacts associated with the federal voucher program can be found here. In addition, these costs could recur or change based on the regulatory environment, litigation, and how future Administrations choose to treat the program.

■ Significant cost ■ Moderate cost ■ Lower cost

State requirement	Regulatory reference	What the state must do	State Resources Needed
Register through the IRS State §25F portal	§1.25F-5(b)(1)	Obtain or be assigned a special-purpose EIN and complete portal registration.	Yes: staff time, system setup, training, and coordination.
Designate authorized state officials	§1.25F-5(b)(2)	Authorize up to two qualifying officials to register for and use the portal; document their authority.	Yes: legal review and administrative coordination.
Provide portal registration information	§1.25F-5(b)(4)	Submit the special-purpose EIN, officials' contact information, and any additional information required by future guidance.	Yes: staff time; future guidance could add tasks.
Comply with future information requests	§1.25F-5(b)(4), (c)(5), (d)(2)-(3)	Provide additional information or certifications the IRS may require in future guidance.	Potentially: scope and cost cannot yet be determined.
Make an annual state election	§1.25F-5(c)(1)-(4)	Elect participation for each calendar year, either by perfecting an advance election or, after the first year, with the SGO list.	Yes: executive, legal, and administrative review.
Submit and perfect an advance election when applicable	§1.25F-5(c)(3)	For 2027, file the advance election by January 1, 2027 and submit the SGO list by February 15, 2027.	Yes: accelerated implementation and deadline-management costs.
Submit annual State SGO list	§1.25F-5(c)(3)-(5); (d)(1)	Prepare and submit the list with all required information and certifications.	Yes: application intake, review, database, and filing costs.
Include all qualifying applicants annually	§1.25F-5(c)(5)(v)	Certify that the list includes every qualifying SGO located in the state that seeks inclusion.	Yes: potentially broad application-review workload.
Describe any state SGO tax credit	§1.25F-5(c)(5)(vii)	Provide relevant statutes, regulations, and guidance for any state credit available for SGO contributions.	Yes: legal and tax-policy staff time.
Provide information for each SGO	§1.25F-5(d)(2)	Provide each organization's name, EIN, address, telephone number, tax-exempt status, and other information required by guidance.	Yes: collection, verification, and data-management costs.
Certify each SGO's location and account controls annually	§1.25F-5(d)(3)(i)-(ii)	Certify that each SGO is located in the state and properly maintains its §25F segregated account and records.	Yes: document review and compliance-check costs.

State requirement	Regulatory reference	What the state must do	State Resources Needed
Certify operational compliance annually	§1.25F-5(d)(3)(iii)	Certify that each SGO meets all federal operational requirements.	Yes: potentially significant legal, financial, and programmatic review.
Classify each SGO annually	§1.25F-5(d)(3)(iv)(A)	Determine whether each organization is or will be a single-state or multistate SGO.	Yes: staff and legal analysis.
Review annual audits	§1.25F-5(d)(3)(iv)(B)	Review each SGO's annual financial and programmatic audit report.	Yes: financial/program staff or contractor review.
Review annual certifications and reports annually	§1.25F-5(d)(3)(iv)(C)	Review certifications and other information each SGO provides to the IRS.	Yes: recurring annual compliance workload.
Investigate reporting failures annually	§1.25F-5(d)(3)(iv)(D)	Investigate failures to provide required certifications or information and determine whether problems were corrected or prevented.	Yes: investigative, enforcement, and legal costs.
Evaluate new SGOs without operating history annually	§1.25F-5(d)(4)	Review bylaws, policies, procedures, and documentation showing ability and intent to comply.	Yes: heightened front-end review and monitoring.
Evaluate SGOs with pending 501(c)(3) applications annually	§1.25F-5(d)(5)	If the state includes pending applicants, verify SGO rules for pending applicants and make added certifications.	Yes: legal review, tracking, and follow-up with IRS status.
Maintain certification policies and procedures annually	§1.25F-5(d)(6)	Maintain state systems that enable independent state determinations, respond to audits, remove noncompliant SGOs, and provide due process.	Yes: policy development, staffing, training, and legal process.
Maintain an accurate public SGO list annually	§1.25F-5(d)(6)(iii)	Keep any public state list identical to the latest submitted list, include the URL for the IRS SGO list, and state that the taxpayer may rely on the IRS SGO list.	Yes: website, database, and communications costs.
Update and remove SGOs annually	§1.25F-5(d)(7)	Process permitted list changes; promptly remove organizations when required and notify the IRS.	Yes: ongoing administration, notice, and enforcement.
Provide due process before state removal	§1.25F-5(d)(7)(iii)(B)	Use a procedure providing due process before removing an SGO for noncompliance.	Yes: hearings, notices, records, counsel, and possible litigation.
Impose tailored SGO documentation requirements	§1.25F-5(e)(1)(ii)(A)	Require application, documentation, and financial reporting sufficient to support certification.	Yes: system design, monitoring, and review.
Prevent and detect fraud or abuse annually	§1.25F-5(e)(1)(ii)(B)	Facilitate prevention and detection of fraud and abuse, including scholarship misuse, such as duplicate scholarship awards for the same expense.	Yes: controls, data matching, investigations, and technology.
Respond to federal review annually	§1.25F-5(e)(3)	Modify state procedures if the IRS identifies a pattern of irregularities or noncompliance.	Yes: remediation, system changes, retraining, and possible legal costs.

Primary source: Federal Scholarship Tax Credit, Notice of Proposed Rulemaking, REG-117199-25, proposed §§ 1.25F-5(b)-(e), with related provisions in proposed § 1.25F-4. This is a proposed rule, not a final rule. Requirements and implementation details may change in the final regulations or future IRS guidance.

About the cost classifications: The ratings are qualitative estimates of relative state burden, not dollar estimates. They consider whether a requirement is one-time or recurring; the staff time and specialized expertise involved; the need for new systems, oversight, investigations, or legal processes; and the potential volume and complexity of SGO-related work. Actual costs will vary based on the number of SGOs, existing state capacity, and future IRS guidance.