

OBBBA's School Vouchers: The Ship of State Springs a Leak

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In this article, Gradman examines the dollar-for-dollar credit, added by the One Big Beautiful Bill Act, for cash contributions of up to \$1,700 to a scholarship-granting organization.

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Imagine if you could write a postcard to Treasury, instructing it to earmark some money to a charity in your neighborhood. The charity must check certain legal boxes, but beyond that, who cares? Money misspent in your own backyard is better than money spent on an overseas war. So, you say yes.

Now imagine if every taxpayer could do the same thing.

Welcome to America, effective for tax years ending after December 31, 2026. Under new [section 25F](#), as added by section 70411 of the [One Big Beautiful Bill Act](#) (OBBBA, P.L. 119-21), individuals get a dollar-for-dollar credit, up to \$1,700, for cash contributions to a scholarship-granting organization (SGO) that uses the money to fund scholarships for eligible students. The SGO must be a 501(c)(3) organization, can't give scholarships to its own donors or staff, and can't spend less than 90 percent of its income on scholarships. SGOs can't be private foundations, but with so much money sloshing around, it should not be hard to establish a broad donor base. The credit is not allowed if you take a similar state credit, but there is no prohibition on taking a state deduction — making it conceivable that a taxpayer could net money from this scheme.

Congress has considered several versions of [section 25F](#) over the last decade. The one in the House's version of the OBBBA was typical — it featured a larger credit per individual (greater of \$5,000 or 10 percent of AGI) but capped total nationwide credits under a novel first-come, first-serve basis (\$5 billion total). The Joint Committee on Taxation and the Congressional Budget Office estimated that

this would cost around \$3.5 billion per year,¹ implying that taxpayers would choose to leave \$1.5 billion of national cap on the table. By comparison, the JCT and CBO estimated that the version that became law — featuring the lower \$1,700 per-individual credit but no national cap, as amended by Senate Budget Committee Chair Lindsey Graham, R-S.C.² — would cost even less in the first few years.³

In my opinion, the JCT and CBO have misjudged human nature, and by so doing have grossly underestimated the cost of [section 25F](#). When a tax credit is dollar for dollar, simple to claim, and benefits the taxpayer in some way (even if only psychically), it makes no sense to imagine that a taxpayer will claim fewer than the maximum possible credits. No one I know would rather send \$1,700 to Washington than to their choice of local parochial schools. Assuming for simplicity that, of the 161 million income tax returns filed in 2024,⁴ around 100 million paid at least \$1,700 of income tax, the true cost of this bill should be \$170 billion per year — a 50-fold increase from the estimate.

SGOs do perform a charitable purpose — to allocate \$153 billion (90 percent of \$170 billion) of Treasury money to scholarships, which can cover tuition, fees, uniforms, transportation, books, supplies, and computer equipment for private primary and secondary schools. Under new [section 139K](#), recipients of scholarships won't take the money into gross income.

As so structured, [section 25F](#) creates a system of government-funded vouchers. But unlike traditional vouchers, which cannibalize local tax money from public schools, [section 25F](#) cannibalizes the federal budget. Unless local school boards reduce their services in response, most Americans would essentially have two fully funded school options. New schools will be needlessly built, and tuition and other costs will outpace inflation. With the federal government taking on responsibility for so many educational costs, we might expect to see pressure for increased federal regulation of parochial schools. A new Cabinet-level role, devoted to education, may even be needed, assuming one does not already exist.

Apart from creating a massive new role for the federal government in primary and secondary education, [section 25F](#) will also create new jobs entirely unrelated to education. If at least 90 percent of an SGO's income must be spent on scholarships, then as much as 10 percent can be spent on costs. Usually, we expect that charities with high administrative costs would have trouble competing for donors. However, since SGOs are spending someone else's (Treasury's) money, and since the administrative costs of a local SGO support your local economy, high overhead might not deter donations.

Ten percent of \$170 billion is \$17 billion. This is enough to create an entirely new professional class, the SGO administrator. Since every taxpayer already wants to earmark \$1,700 to a local SGO, the demand for the SGO administrator's services is federally guaranteed. The administrator's job is just rent-seeking — that is, to convince people to name their SGO instead of someone else's. Most people would be wise to consider moonlighting for an SGO or setting one up on the side.

Assuming that, as a matter of public policy, we really do want to have two coexisting education systems — one subsidized by local taxes and one subsidized by federal taxes — I recommend three

changes to [section 25F](#).

First, a taxpayer's decision to earmark federal funds to an SGO should not make them richer than before. [Section 25F](#) should be revised so that the federal credit is disallowed if the taxpayer receives any other tax benefit, including a state law deduction.

Second, a taxpayer's decision to earmark federal funds to an SGO should not feel like spending someone else's money. That gives the taxpayer no incentive to evaluate whether the SGO is spending the money responsibly. Instead of a one-for-one credit, the credit should be limited to some multiple (applicable percentage) of the contribution, and that percentage should be less than 100 percent.

Third, we should think hard about how large that applicable percentage should be. Once we modify [section 25F](#) so that earmarking funds to SGOs costs taxpayers money, those earmarks will compete with transfers to other charities. How much more important do we, as a society, feel that creating a second public school system is, compared with, say, provision of food, medicine, or housing for the poor? Policymaking entails sacrifice. It is shortsighted to shift resources to one charity unless we are prepared to acknowledge that this comes at the expense of others.

FOOTNOTES

¹ See JCT, "[Estimated Revenue Effects of a Manager's Amendment to the Tax Provisions to Provide Reconciliation of the Fiscal Year 2025 Budget in the Senate Relative to Present Law](#)," JCX-31-25 (June 28, 2025); CBO, "[Estimated Budgetary Effects of an Amendment in the Nature of a Substitute to H.R. 1, the One Big Beautiful Bill Act, Relative to CBO's January 2025 Baseline](#)" (June 29, 2025) (adopting JCT's estimate).

² See S. Amdt. 2849 (July 1, 2025).

³ JCT, "[Estimated Revenue Effects Relative to Present Law Baseline of the Tax Provision in 'Title VII — Finance' of the Substitute Legislation as Passed by the Senate to Provide for Reconciliation of the Fiscal Year 2025 Budget](#)," JCX-35-25 (July 1, 2025); CBO, "[Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline](#)," (July 21, 2025) (adopting JCT's estimate).

⁴ IRS, [Data Book 2024](#) (May 29, 2025).

END FOOTNOTES