



The Prichard Committee

Building a Groundswell for a Big Bold Future

What Does the Federal Scholarship Tax Credit Mean for Kentucky Public Schools?

A briefing from the Prichard Committee for Academic Excellence | September 2026

The Question:

Kentucky has opted in. Nine in ten Kentucky students attend public schools. What will it take for this program to reach them, and who should make sure that it does?

What is the Federal Scholarship Tax Credit?

The Federal Scholarship Tax Credit (FSTC) is a new federal tax credit created by the One Big Beautiful Bill Act, signed July 4, 2025, and written into the tax code as Section 25F.¹ It encourages private contributions to Scholarship Granting Organizations (SGOs), which award scholarships for K–12 education expenses. Scholarships may support students in public, private, religious, and home-school settings. Beginning with contributions made on or after January 1, 2027, eligible individual taxpayers may claim a dollar-for-dollar federal tax credit of up to \$1,700 for qualified cash contributions to approved SGOs in participating states.

The \$1,700 is a cap on what a donor may claim, not a cap on what a donor may give. Someone who contributes \$2,000 could claim the \$1,700 credit and treat the remaining \$300 as an ordinary charitable deduction. What no donor may do is claim both a credit and a deduction on the same dollars, or claim the federal credit and a state tax credit on the same contribution.

Two other features shape how much money this actually moves. The credit is nonrefundable, so it can only offset federal tax a person already owes, though unused amounts carry forward for up to five years. And it is available to individuals, not businesses.

Whether a married couple filing jointly may claim \$1,700 or \$3,400 has not been settled. Section 25F(b)(1) caps the credit at \$1,700 “to any taxpayer for any taxable year” and contains none of the doubling language Congress normally uses when it wants a figure to double on a joint return, which is why most tax practitioners currently read the cap as per return. Others read the credit as belonging to each individual and argue for \$3,400 on a joint return, and at least one national organization has formally asked Treasury to adopt that reading. Treasury’s June 2026

¹ Public Law 119-21, § 70411 (July 4, 2025), codified at 26 U.S.C. § 25F. See also IRS, “Federal Scholarship Tax Credit (FSTC),” irs.gov/government-entities/federal-state-local-governments/federal-scholarship-tax-credit-fstc.

preview did not address the question. Until the proposed regulations do, donors are generally being advised to plan at \$1,700 per return.²

For states, the program is voluntary: a state must elect to participate and provide the IRS with a list of qualifying SGOs before taxpayers can claim the credit for contributions connected to that state. The Kentucky General Assembly elected to participate through [HB1\(2026\)](#) and is listed by the IRS as having made an advance election to participate for 2027. HB 1 became law on March 17, 2026.³ It names the Secretary of State as the sole official authorized to report Kentucky's election and submit the state's list of SGOs to the U.S. Treasury. On July 22, 2026, Secretary of State Michael Adams signed Kentucky's opt-in paperwork with the IRS and filed the state regulation governing how organizations register as SGOs.⁴ As of the IRS list published July 24, 2026, Kentucky is one of 30 participating states.⁵

- ☐ Individual taxpayers make qualified cash contributions to approved SGOs.
- ☐ Taxpayers may claim a nonrefundable federal income tax credit, generally up to \$1,700, for qualifying contributions. Credit that exceeds a taxpayer's liability carries forward for up to five years.
- ☐ SGOs use donated funds to award scholarships to eligible K–12 students for qualified education expenses.
- ☐ States decide whether to participate and must identify qualifying SGOs for the IRS.
- ☐ The program begins with contributions made on or after January 1, 2027, with credits claimed on 2027 tax returns filed in 2028.

Scholarship Granting Organizations (SGOs)

Scholarship Granting Organizations are nonprofit entities that receive qualified contributions and award scholarships. Federal law sets six requirements that matter for planning purposes. An SGO must be a 501(c)(3) public charity rather than a private foundation. It must spend at least 90 percent of its income on scholarships. It must award scholarships to ten or more students who do not all attend the same school. It may not let a donor earmark a contribution for a particular student. It must verify each applicant household's income and family size against the 300 percent threshold. And it must award scholarships in a fixed order of priority: students who

² 26 U.S.C. § 25F(b)(1) caps the credit at \$1,700 "to any taxpayer for any taxable year." Nonrefundability and the five-year carryforward are at § 25F(f); the reduction for any state credit is at § 25F(b)(2); the bar on also deducting the same contribution under § 170 is at § 25F(b)(3). Treasury's June 9, 2026 guidance preview did not address joint filers. For the per-return reading see Brownstein Hyatt Farber Schreck, § 25F Q&A (April 2026). For the \$3,400 reading see the America First Policy Institute public comment on Notice 2025-70. The question stays open until the proposed regulations are issued.

³ HB 1, 2026 Regular Session, apps.legislature.ky.gov/record/26rs/hb1.html. The bill creates a new section of KRS Chapter 14 and amends KRS 141.019 to exclude qualified SGO contributions from allowable state individual income tax deductions. The General Assembly overrode the Governor's veto on March 17, 2026.

⁴ Kentucky Secretary of State, "Adams Enables Kentucky Families to Benefit from Federal Education Tax Credit," July 22, 2026.

⁵ IRS Revenue Procedure 2026-6 established the Advance Election process (Form 15714). Kentucky appears on the IRS list of states making an advance election to participate under Section 25F for 2027, published July 24, 2026.

received a scholarship from that SGO the previous school year come first, then students who have a sibling who received one, and only then every other eligible applicant.⁶

The priority rule deserves more attention than it usually gets. It is not an option an SGO may adopt. It is a condition of qualifying under federal law, and an organization that does not follow it can lose its SGO status. Its practical effect is that the first cohort of recipients, and then their siblings, hold a renewable claim on the money in every year that follows. Whoever is first in line stays first in line.

In a program where demand is likely to outrun available dollars, this compounds. Families who hear about the program early, apply quickly, and stay in one place will accumulate advantage year over year. Families who learn about it later, move between districts, or apply for the first time in year three will be competing for whatever the renewals and siblings have not already claimed. That is a privilege-building mechanism written into the statute itself, and it works against the students a public-school-focused SGO would most want to reach. Any Kentucky SGO serious about equity will have to work deliberately against that grain, through early and repeated outreach, hands-on application support, and careful use of whatever discretion the law leaves it. Kentuckians should understand this provision before the first scholarships are awarded, not after.

The SGO must use **at least 90% of its income for scholarships for eligible students**. In practical terms, that leaves **no more than about 10%** for administration, compliance, audits, technology, staffing, fundraising, and other operating costs. The test is written against the organization's income, not simply the donations it takes in, so investment earnings and other receipts count toward the base. That is a tighter standard than most nonprofits operate under, and it is the main reason an existing foundation usually cannot just add SGO activity to what it already does.⁷

Scholarships are intended for students who are **eligible to enroll** in a public elementary or secondary school and whose household income in the prior year did not exceed 300 percent of the area median gross income where they live.⁸ The phrase *eligible to enroll* carries a great deal of weight. It is not a requirement that a student actually attend a public school. Any child who could enroll in one meets that test, whether the child currently learns in a public, private, religious, or home school. Because the income ceiling is tied to local rather than national income, the eligible share looks broadly similar from community to community, and it reaches well into the middle class. The American Federation for Children estimates that 51.7 million

⁶ 26 U.S.C. § 25F(d)(1). The ten-student rule is at (A); the 90 percent spending test at (B); the qualified-expense limit at (C); the priority order at (D); the anti-earmarking rule at (E); income verification at (F). Section 25F(d)(2) separately bars awards to disqualified persons under rules similar to § 4946. See also 030 KAR 1:060, filed July 22, 2026, and Congressional Research Service, R48724 (2025).

⁷ Treasury's June 9, 2026 guidance preview indicated the 90% test will generally be measured against the organization's total receipts, unreduced by expenses. An organization whose activities are largely scholarship-granting could instead use a safe harbor that measures income by the amount held in a segregated Section 25F account, including qualified contributions and earnings; a multistate SGO would have to meet that test separately for each state. Proposed regulations are expected by the end of September 2026 and may be relied on for the 2027 tax year.

⁸ 26 U.S.C. § 25F(c)(2). An eligible student must be eligible to enroll in a public elementary or secondary school and be a member of a household whose income for the preceding taxable year did not exceed 300 percent of the area median gross income. Nothing in the statute requires the student to attend a public school.

children nationally, roughly 92 percent, meet the program's eligibility requirements.⁹ No Kentucky-specific calculation has been published.

Qualified expenses are defined by cross-reference to Section 530(b)(3)(A), the list used for Coverdell education savings accounts, and it is broader than a quick summary suggests.¹⁰ It covers tuition, fees, academic tutoring, books, supplies, and other equipment incurred in connection with enrollment or attendance at a public, private, or religious school. Separately, it covers room and board, uniforms, transportation, and supplementary items and services, including extended day programs, where those are required or provided by the school. It also covers computer technology, equipment, and internet access. For a student who attends public school and pays no tuition, that still leaves a wide field: tutoring, course and testing fees, books and supplies, technology and connectivity, transportation, before- and after-school programs, and school-required uniforms and equipment, including for band and athletics. This is why the credit can reach public school students at all, and it is the opening this brief examines.

What federal law does not do is tell an SGO how tightly to manage those dollars. The statute sets an outer boundary, in that scholarships may pay only qualified expenses, and it requires the SGO to verify household income. It says nothing about whether an SGO must pay providers directly, reimburse documented purchases, or simply issue families a card or a check.

An SGO may therefore adopt a tighter approach than federal law requires, such as an approved-provider list. Whether it will be able to hold that line is a separate question. Family demand and commercial interest will both push toward maximum flexibility, and a later Treasury regulation or state rule could narrow how much discretion an SGO retains in either direction. Kentucky should watch this closely. The difference between a scholarship that buys vetted tutoring and one that funds unvetted purchases rests almost entirely on SGO policy right now, and policy that is neither written down nor publicly defended tends to drift.

Implications for Kentucky

The Federal Scholarship Tax Credit creates opportunity, but implementation will require careful attention to the design of SGOs, public communication to potential donors and families who could utilize scholarship resources, organizational accountability, and attention to quality and equity.

Kentucky has roughly 740,000 school-age children. Essentially all of them meet the program's student-side test, because nearly any Kentucky child could enroll in a public school, and the large majority live in households below the income ceiling. Eligibility here is close to universal; the binding constraints are how many dollars are raised and who actually applies. Of Kentucky's enrolled K–12 students, approximately 91% attend public schools and roughly 9% attend private

⁹ American Federation for Children Growth Fund, analysis by Patrick Graff, Ph.D., July 2026, estimating 51.7 million eligible students nationally, about 91.7 percent of children. AFC is a school choice advocacy organization and produced the estimate to encourage state participation; it is cited here as the best published estimate available, not as a disinterested source. No Kentucky-specific figure has been released.

¹⁰ 26 U.S.C. § 530(b)(3)(A), incorporated by reference in § 25F. Clause (i) covers tuition, fees, academic tutoring, special needs services, books, supplies, and other equipment incurred in connection with enrollment or attendance. Clause (ii) covers room and board, uniforms, transportation, and supplementary items and services, including extended day programs, that are required or provided by the school. Clause (iii) covers computer technology, equipment, and internet access. See also Congressional Research Service, R48724 (2025).

schools.¹¹ Home-schooled students, who are also eligible, are counted separately and are not included in either figure. The enrollment split tells us where the opportunity is concentrated, not who qualifies: while some SGOs will focus on private school tuition, the overwhelming majority of Kentucky's eligible children are in public schools.

How much money could this actually move in Kentucky? Education Reform Now estimates that about 487,554 Kentucky taxpayers will have enough federal tax liability to claim the full credit. Its published Kentucky scenarios top out at roughly \$249 million a year, which assumes 30 percent of those taxpayers give the maximum, a participation rate well above anything observed in existing state tax-credit scholarship programs.¹² More modest assumptions give a more useful planning range: roughly \$8 million at 1 percent participation, \$41 million at 5 percent, and \$83 million at 10 percent, divided among every approved SGO in the state.¹³ A newer analysis from the American Federation for Children puts donor capacity higher still. None of these are forecasts. They are arithmetic applied to a participation rate no one can yet observe. The honest summary is that the opportunity is real and the near-term scale is unknown.

Where Kentucky Stands Today

Kentucky is further along than many people assume. The dates below set the practical timetable.

- **March 17, 2026.** HB 1 becomes law, opting Kentucky into the federal program.
- **July 22, 2026.** Secretary of State Michael Adams signs Kentucky's IRS opt-in and files the regulation for registering SGOs.
- **October 27, 2026.** A public hearing on the administrative regulations for SGOs (030 KAR 001:060). Individuals interested in being heard at this hearing shall notify Michael R. Wilson in writing by five (5) working days prior to the hearing of their intent to attend. Written comments shall be accepted until October 31, 2026. The public hearing will occur at 9am EST at the Office of the Secretary of State, in Frankfort, Kentucky.
- **November 30, 2026.** Under the Secretary of State's regulation, an organization must file a Declaration of Scholarship Granting Organization by November 30 of the year before it begins operating. Filers need a 501(c)(3) determination letter from the IRS and a \$15 fee.¹⁴

¹¹ Enrollment shares are approximate and vary by reporting year and source. The school-age population figure is an approximation of Kentucky children ages 5 to 18. Home-schooled students are reported separately from both public and private school enrollment.

¹² Education Reform Now, state-level projections accompanying "New Data Projects Potential \$24 Billion Boost for Students Through Federal Tax Credit Scholarship Program," December 22, 2025. ERN estimates 487,554 Kentucky taxpayers with at least \$1,700 in federal liability, and its Kentucky scenarios top out near \$249 million at 30 percent participation. Note: the widely quoted "over \$800 million" figure in ERN's release is a national total across all participating states at 1 percent participation, not a Kentucky figure.

¹³ Calculated from Education Reform Now's Kentucky estimate of 487,554 taxpayers with sufficient federal liability, multiplied by the \$1,700 maximum credit at the stated participation rates. Illustrative arithmetic, not a projection.

¹⁴ Kentucky Secretary of State administrative regulation 030 KAR 1:060, filed July 22, 2026. Organizations file a Declaration of Scholarship Granting Organization; nonprofit and foreign nonprofit entities with confirmed 501(c)(3) public charity status may file in person, by mail, or through the Secretary of State's Fast Track system.

- **January 1, 2027.** Kentucky's SGO list goes to the IRS, and approved SGOs may begin accepting qualifying contributions.¹⁵

The November 30 date is the practical constraint. An organization that is not registered by then cannot accept credit-eligible contributions during 2027. That timetable matters for public schools: decisions about how this program serves public school students are being made right now, not after the first scholarships are awarded.

Treasury's proposed regulations are expected by the end of September 2026 and may be relied on for the 2027 tax year. Several design questions below will be easier to answer once they are published.

Three Roles: Build, Partner, Watchdog

Organizations that care about Kentucky's public school students have three broad options under this program. They are not mutually exclusive, but they carry very different costs, timelines, and degrees of control.

- **Build.** Stand up a new SGO focused on public school students. This offers the most control over who is eligible, which providers are approved, and what scholarships can cover. It also carries the heaviest burden: 501(c)(3) public charity status, registration by November 30, a board and audits, fundraising, and compliance with the 90 percent spending test, all on roughly ten cents of every dollar for overhead.
- **Partner.** Work with an SGO that already exists or is forming, shaping how it serves public school students without carrying the administrative load. Influence here rests on the relationship rather than on governance, so the terms are what matter: who sets eligibility, which providers are approved, what data is collected, and what gets reported publicly.
- **Watchdog.** Take no operating role. Instead, set public expectations for quality, track who is served and where, and report on whether the program expands opportunity or concentrates it among families already best positioned to navigate it. This requires the least infrastructure and preserves independence, but it does not put scholarship dollars in families' hands.

The November 30 registration deadline applies only to the first option. Partnering and monitoring can begin at any point. That makes building the only choice that has to be made on someone else's clock, and the only one that forecloses if it is deferred.

Designing an SGO for Public School Students

An SGO designed for public school students would help families pay for learning supports and enrichment opportunities that strengthen a student's public-school experience. Think of it as an opportunity fund. Eligible uses could include:

¹⁵ Kentucky Secretary of State, July 22, 2026. Credits apply to qualifying contributions made during the 2027 tax year after Kentucky's SGO list is submitted to the IRS, and are claimed on 2027 federal returns filed in 2028.

- ❑ Tutoring and academic recovery in reading, math, and other subjects
- ❑ Summer learning and afterschool programs
- ❑ Dual credit, career exploration, and industry certification costs
- ❑ Transportation to approved learning opportunities
- ❑ Technology, internet access, books, supplies, and instructional materials
- ❑ Specialized academic supports for students with disabilities
- ❑ Arts, STEM, civics, financial literacy, and other enrichment opportunities

Working with Public Schools and Families

The SGO should work with public schools, not around them. Districts and schools can help identify student needs, share information with families, refer students to available opportunities, and partner with approved providers. At the same time, the SGO should maintain clear independence, consistent eligibility rules, and transparent decision-making.

An SGO serving public school students should be designed with equity at the center. That means making sure students and families with the greatest barriers are not left out. Priority groups could include students from low-income households, rural communities, students with disabilities, English learners, students experiencing homelessness, foster youth, and students in communities with fewer out-of-school learning options.

The application process should be simple, clear, and easy to navigate. A strong model would work through trusted local partners such as schools, Family Resource and Youth Services Centers, libraries, community colleges, and nonprofit organizations.

Possible approaches:

- ❑ Districts identify priority needs but do not control awards
- ❑ Schools refer students to scholarship opportunities
- ❑ SGOs maintain an approved-provider list
- ❑ Districts, nonprofits, and postsecondary institutions can become service providers where legally permissible
- ❑ Local advisory councils help identify gaps in services

The key is maintaining independence and compliance while making the program useful to schools and families.

Evaluating Quality and Accountability

Families and donors should be able to trust that scholarship funds are used well. The SGO should have an independent board, clear conflict-of-interest policies, public reporting, annual audits, student privacy protections, limits on administrative costs, and a transparent process for approving and monitoring providers.

Approved providers should meet quality standards, use evidence-informed practices where appropriate, report basic participation and outcome information, and be removed from the approved list if they do not meet expectations.

To understand whether the SGO is expanding opportunity, it should track who is served, where students live, what services are used, how much scholarship support is provided, whether rural and urban communities are reached, how families experience the program, and whether students benefit from the services they receive.

Fundraising

A successful SGO will need to be able to build and manage a donor base of individuals at scale while keeping expenses under the 10 percent cap on all administrative costs. It will need to implement infrastructure that can facilitate large number of donors, while providing accurate records for donor stewardship, tax records, donor gift designations, etc. Potential donors will need education about how the federal tax credit works and how it differs from a charitable tax deduction. In addition to directly contacting potential donors, an SGO will likely need to communicate with financial and tax advisors and with employers to encourage giving via payroll deductions.

Risks to Avoid, and a Kentucky Lens

An effective and impactful SGO should avoid programs that mostly benefit families who already have time, information, or money to navigate the system. It should have strong oversight of providers and clear quality standards. It should ensure access for families across the state and limit bureaucratic burden to families and local communities.

If dollars are limited and awards run first-come, first-served, the process itself hands an advantage to families who are well informed, well connected, and settled in one community. Combined with the federal renewal and sibling priority described above, a first-come design can lock in that advantage for years. An open application window, plain-language outreach through schools and family resource centers, deadlines that do not reward whoever refreshes a webpage fastest, and a deliberate set-aside for first-time applicants are all ways to blunt this.

Some areas to consider, specifically for Kentucky include:

- ☐ Rural access and transportation
- ☐ FRYSC partnerships
- ☐ Tutoring and early literacy/math recovery
- ☐ Postsecondary and workforce pathways
- ☐ Regional equity across Appalachia, western Kentucky, urban districts, and small towns

Conclusion

A well-designed public-student SGO should be simple for families, useful to schools, transparent to the public, accountable to donors and communities, and focused on expanding educational opportunity for students who need it most.

If done well, the implementation of HB 1 (2026) and the Federal Scholarship Tax Credit should improve outcomes for Kentucky students and draw parents and caregivers more deeply into

their children's learning. Measuring whether it does will be essential, and Kentucky should decide now what evidence it expects to see.