Education Freedom Tax Credit

A guide for Kentucky CPAs and their clients

STARTS	MAXIMUM CREDIT	CONTRIBUTION	KENTUCKY SGO
Jan. 1, 2027	$1,700 per taxpayer annually	Cash to an approved SGO	Kentucky Education Fund

What is Kentucky House Bill 1?

Kentucky House Bill 1 (2026 Regular Session) implements Kentucky's participation in the federal Education Freedom Tax Credit program created by Section 25F of the Internal Revenue Code. HB 1 establishes a process for identifying qualified Scholarship Granting Organizations (SGOs) operating in Kentucky.

The federal credit begins January 1, 2027. Eligible taxpayers may receive a dollar-for-dollar federal income tax credit of up to $1,700 per year for qualifying cash contributions to an approved SGO. Kentucky formally opted into the program in July 2026.

What is an SGO?

A Scholarship Granting Organization is a qualified 501(c)(3) charitable organization that receives contributions and uses them to provide scholarships for eligible elementary and secondary students. Qualified scholarship expenses may include tuition, instructional materials, tutoring, and other qualifying educational costs.

SGOs must meet federal requirements, including separate accounts for qualified contributions and generally spending at least 90% of applicable income on scholarships. The SGO must also appear on Kentucky's approved list for the applicable year.

The Kentucky Education Fund

The Kentucky Education Fund (KEF) is a Kentucky-based SGO designed to participate in this program. KEF provides Kentucky taxpayers with an in-state opportunity to direct qualified contributions toward scholarships that can help Kentucky students access educational opportunities.

Before claiming the credit, taxpayers should confirm that KEF appears on the official Kentucky SGO list for the applicable year.

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How CPAs can help clients

CPAs can educate clients about the opportunity and incorporate it into appropriate year-end tax planning and charitable-giving conversations.

- Have a federal income-tax liability and may benefit from a nonrefundable tax credit.
- Regularly make charitable contributions.
- Are interested in supporting Kentucky students and education.
- Want to make a qualified contribution to an approved Kentucky SGO.
- Are engaged in year-end tax planning and charitable-giving decisions.

A simple client conversation

> "Beginning in 2027, federal law provides a tax credit of up to $1,700 for qualifying cash contributions to an approved Scholarship Granting Organization. Kentucky has elected to participate in the program. If supporting Kentucky students is important to you, we can discuss whether a qualified contribution to an approved SGO fits your tax-planning and charitable-giving objectives."

Important tax considerations

The federal Section 25F credit is nonrefundable and limited to $1,700 per taxpayer per year. A contribution receiving the federal credit generally cannot also be claimed as a charitable deduction under IRC §170. Federal law also provides for carry-forward of unused credit, subject to statutory limitations.

CPAs should verify current IRS and Kentucky guidance and confirm that KEF is on the official Kentucky SGO list before advising a client to make a contribution intended to qualify for the credit.

The opportunity

Your clients can support Kentucky students while potentially receiving a dollar-for-dollar federal tax credit. For more information about the Kentucky Education Fund and participation, contact KEF directly at info@kyeducationfund.org.