

Kentucky Scholarship Granting Organizations

*Presentation to the Commission on
Race & Access to Opportunity*

Presented by the Kentucky Secretary of State
Office of Business Services
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Federal Framework

26 U.S.C. § 25F establishes a federal credit beginning in 2027.

- Federal law and Treasury/IRS guidance govern eligibility.
- Beginning in 2027, individual taxpayers may claim a nonrefundable federal credit of up to \$1,700 for qualifying cash contributions to listed SGOs; under the proposed rules, married couples filing jointly may claim up to \$3,400 based on each spouse's contributions.
- Eligible students generally must have prior-year household income not exceeding 300% of area median gross income, adjusted for family size.
- SGOs must satisfy § 25F requirements, including the 90% scholarship-spending rule, scholarships for at least 10 students who do not all attend the same school, separate accounting for qualified contributions, and eligible-use requirements.
- Eligible scholarship expenses include a broad range of K-12 educational expenses permitted under 26 U.S.C. § 530(b)(3)(A).



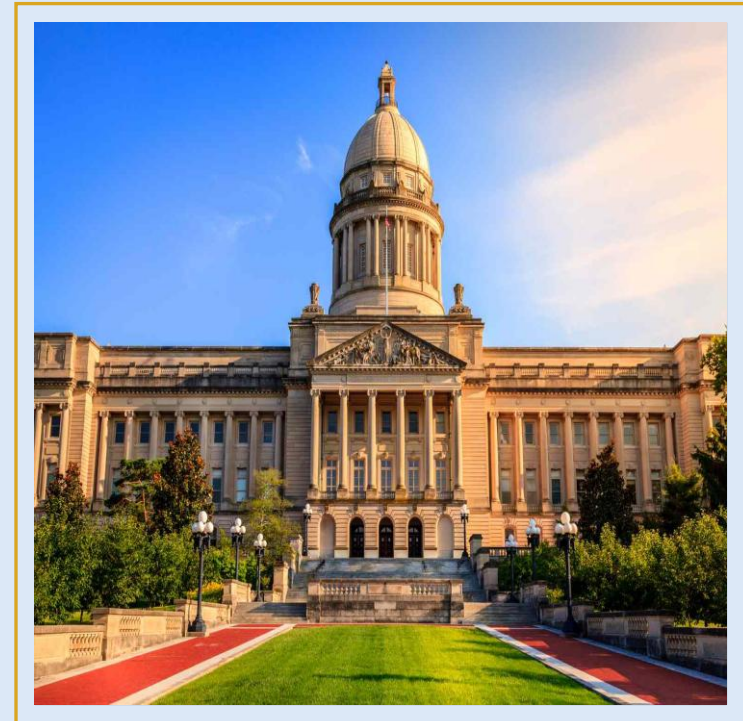
Sources: 26 U.S.C. § 25F; Treasury/IRS regulations and fact sheet issued Oct. 1, 2026; proposed 30 KAR 1:060.



Kentucky Opts In Through HB 1

Kentucky elected to participate and assigned the state-list function to the Secretary of State.

- HB 1 authorizes Kentucky's participation in the federal § 25F program.
- The legislation assigns the Secretary of State the administrative role of compiling SGOs and submitting Kentucky's annual SGO list to the IRS.
- HB 1 became effective July 15, 2026.
- Kentucky filed its Advance Election Form with the IRS on July 22, 2026.
- The process for inclusion on Kentucky's annual SGO list is established in proposed 30 KAR 1:060.



Sources: HB 1 (2026); Kentucky Advance Election Form filed with IRS July 22, 2026.



Three Distinct Roles

Keeping these roles separate will help avoid confusion.

IRS / TREASURY

Federal eligibility, tax-credit rules, forms, and guidance under § 25F. Treasury and IRS issued proposed and temporary regulations on October 1, 2026.

SECRETARY OF STATE

Receives declarations and submits Kentucky's SGO list to the IRS. Kentucky statutory deadline: January 1, 2027.

SGOs

Listed SGOs may receive qualified contributions beginning in 2027, award scholarships, maintain required accounts, and obtain their own legal, tax, fundraising, and compliance advice.

The SOS can explain the Kentucky filing pathway; it cannot substitute for the IRS, Treasury, or private counsel.



New Federal Guidance Issued October 1

Treasury and IRS released proposed and temporary regulations for the 2027 launch.

- Temporary regulations establish immediate procedures for state SGO submissions, separate SGO registration directly with IRS, assignment of donor numbers, acknowledgements, and reporting of qualified contributions.
- Proposed regulations address substantive requirements including student eligibility, SGO operations, segregated-account and safe-harbor rules, audits, and program administration.
- Kentucky is reviewing the interaction between these federal requirements and its proposed administrative regulation.
- Additional guidance and operational coordination may be necessary before the program begins in 2027.

New federal requirements are under review.

Source: Treasury/IRS temporary and proposed regulations; Treasury-Department of Education FSTC FAQ (Oct.1, 2026).



The Secretary of State's Role—and Its Limits

Kentucky law assigns the Secretary of State responsibilities for receiving declarations, administering the filing process, and submitting the annual SGO list to the IRS.

What our office can clarify

- Declaration form and filing process
- State deadline and filing fee
- Annual audit filing requirement
- How Kentucky's SGO list is submitted to IRS

Questions governed by federal law or private decisions

- Federal tax-exempt eligibility, scholarship and expense eligibility, and household income verification (AMI)
- Donor, school, or family tax advice
- Fundraising, organizational, or program strategy

Source: proposed 30 KAR 1:060, Section 2(5); proposed federal regulations under 26 U.S.C. § 25F.



Initial Declaration Filing

For inclusion on Kentucky's annual SGO list.

- Organizations seeking inclusion file an SGO declaration with the Secretary of State.
- The declaration must include an IRS § 501(c)(3) determination letter.
- Filing fee: \$15.
- Proposed annual declaration deadline: November 30.

The form is titled "DECLARATION OF SCHOLARSHIP GRANTING ORGANIZATION" and is for a "Domestic or Foreign Entity". It is issued by the Commonwealth of Kentucky, Office of Business Filings, P.O. Box 718, Frankfort, KY 40602. The form includes an "IMPORTANT NOTICE" stating that the form will not be accepted for filing unless it is accompanied by (i) a copy of the Organization's favorable determination letter issued by the Internal Revenue Service ("IRS") recognizing the Organization as described in Section 501(c)(3) of the Internal Revenue Code and exempt from federal income taxation under Section 501(a) of the Internal Revenue Code and (ii) the required \$15 filing fee payable to the Kentucky State Treasurer.

The form contains several sections for the filer to complete:

- 1. I am an officer or other duly authorized representative of ("Organization").** (A line for the filer's name and title.)
- 2. The Organization is:**
 - ☐ A domestic entity organized in Kentucky
 - ☐ A foreign entity authorized to transact business in Kentucky
- 3. The Organization seeks inclusion on the list of Scholarship Granting Organizations submitted by the Kentucky Secretary of State to the Internal Revenue Service pursuant to 26 U.S.C. § 25F.**
- 4. I affirm under penalty of perjury that the Organization satisfies the requirements of 26 U.S.C. § 25F(d), including the following:**
 - (a) The Organization will provide scholarships to ten (10) or more students who do not all attend the same school;
 - (b) The Organization will spend not less than ninety (90) percent of the total annual revenues of the Organization on scholarships for eligible students;
 - (c) The Organization will not provide scholarships for expenses other than qualified elementary or secondary education expenses;
 - (d) The Organization will provide scholarships to eligible students with priority given to:
 - 1. students awarded a scholarship during the previous school year; and
 - 2. after application of subparagraph 1 of this paragraph, eligible students who have a sibling awarded a scholarship from the Organization;
 - (e) The Organization will not earmark or set aside contributions for scholarships on behalf of any particular student; and
 - (f) The Organization:
 - 1. will verify the annual household income and family size of eligible students applying for scholarships to ensure eligibility under 26 U.S.C. § 25F(c)(2)(A);
 - 2. will limit the awarding of scholarships to eligible students who are members of households with income not exceeding the amount established by 26 U.S.C. § 25F(c)(2)(A);
- 5. Attached to this declaration is the Organization's favorable determination letter issued by the Internal Revenue Service recognizing the Organization as an organization described in Section 501(c)(3) of the Internal Revenue Code and exempt from federal income taxation under Section 501(a) of the Internal Revenue Code; and**
- 6. is not a private foundation as defined by Section 509(a) of the Internal Revenue Code.**
- 7. I declare under penalty of perjury under the laws of Kentucky that the foregoing is true and correct.**

The form concludes with a signature line for the "Signature of Authorized Representative", a line for the "Printed Name", and a line for the "Title" and "Date".

Declaration requires IRS determination letter and \$15 fee.

Source: proposed 30 KAR 1:060, Section 2.



SGO Accountability and Oversight

Annual independent CPA audit required under proposed 30 KAR 1:060.

- **Annual CPA Audit:** Due November 30 beginning in the year after inclusion on the IRS list; \$15 filing fee.
- **Scholarship Distribution:** At least 10 eligible students, not all attending the same school.
- **Scholarship Spending:** At least 90% of income for scholarships; funds used for eligible K-12 expenses.
- **Student Protections:** Household-income verification, priority rules, and prohibition on earmarking.
- **Other Requirements:** Separate accounting and continued § 501(c)(3) status.

Source: proposed 30 KAR 1:060, Section 3; 26 U.S.C. § 25F.



Kentucky Implementation: Current Status and Next Steps

- Kentucky submitted its advance election to the IRS on July 22, 2026, and filed proposed 30 KAR 1:060 to establish the state SGO filing process.
- As of October 12, 2026, 16 organizations have filed SGO declarations.
- The proposed regulation remains subject to Kentucky's statutory administrative regulation process, including a public hearing scheduled for October 27 and written comments accepted through October 31.
- The Secretary of State is required by KRS Chapter 13A to consider public comments, file a Statement of Consideration and any amendments, and undergo legislative review, currently anticipated in December.
- Initial declarations are due November 30 under the proposed regulation; Kentucky's statutory deadline for submitting its initial SGO list to the IRS is January 1, 2027.



Thank You!

Please feel free to contact us directly with additional questions, concerns, or suggestions.

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Kentucky Secretary of State
Office of Business Services

