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SENATE BILL No. 161

Proposed Changes to introduced printing by AM016103

DIGEST OF PROPOSED AMENDMENT

Scholarship tax credit. Removes provisions requiring the Indiana department of education (department) to elect to participate as a covered state in the federal tax credit scholarship program for elementary and secondary education under Section 25F of the Internal Revenue Code (enacted in Public Law 119-21, commonly known as the One Big Beautiful Bill Act of 2025) and related conforming changes. Establishes an early childhood scholarship tax credit for contributions made to a scholarship granting organization that conducts a program to provide scholarships for children who attend a qualified early child care provider. Provides that the amount of the credit is equal to 50% of the amount of the contribution. Limits the total amount of tax credits awarded in a state fiscal year to not more than \$100,000,000. Requires the department to certify early childhood scholarship granting organizations that meet certain criteria. Requires qualified early childhood scholarship granting organizations to enter into an agreement with the department. Specifies conditions that must be included in the agreement. Provides that a school corporation that operates an early childhood education program may not limit consideration for participation in the program solely to those residing within the school district.

A BILL FOR AN ACT to amend the Indiana Code concerning education.

Be it enacted by the General Assembly of the State of Indiana:

1 ~~← SECTION 1. IC 6-3.1-30.5-3, AS AMENDED BY P.L.92-2011;~~
2 ~~SECTION 2, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE~~
3 ~~JANUARY 1, 2027]: Sec. 3. As used in this chapter, "scholarship~~
4 ~~granting organization" refers to:~~
5 ~~(1) an organization that:~~
6 ~~(1) (A) is exempt from federal income taxation under~~
7 ~~Section 501(c)(3) of the Internal Revenue Code; and~~
8 ~~(2) (B) conducts a school scholarship program without~~

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1 — **Chapter 1. State List of Scholarship Granting Organizations**
 2 — **Sec. 1. The department is authorized to and shall as early as**
 3 **practicable elect to participate as a covered state in the federal tax**
 4 **credit scholarship program for elementary and secondary**
 5 **education under Section 25F of the Internal Revenue Code.**
 6 — **See. 2. (a) The department shall identify qualified** **[JANUARY**
 7 **1, 2027]:**
 8 **Chapter 31.6. Early Childhood Scholarship Tax Credit**
 9 **Sec. 1. As used in this chapter, "credit" refers to a credit**
 10 **granted under this chapter.**
 11 **Sec. 2. As used in this chapter, "early childhood scholarship"**
 12 **refers to a grant to pay only the cost of attendance for a qualified**
 13 **child at a qualified early child care provider for which the**
 14 **scholarship will be granted.**
 15 **Sec. 3. As used in this chapter, "early childhood" scholarship**
 16 **granting organizations located in Indiana that meet the**
 17 **requirements set forth in section 4 of this chapter.**
 18 — **(b) The department shall accept applications throughout the**
 19 **year from scholarship granting organizations wishing to be**
 20 **identified as a qualified** **[organization]" refers to an organization**
 21 **that:**
 22 **(1) is exempt from federal income taxation under Section**
 23 **501(c)(3) of the Internal Revenue Code; and**
 24 **(2) conducts an early childhood scholarship program.**
 25 **Sec. 4. As used in this chapter, "early childhood scholarship**
 26 **program" refers to a program conducted by an early childhood**
 27 **scholarship granting organization** **<under subsection (a):**
 28 — **Sec. 3. (a) Not later than the first day of December each year,**
 29 **the department shall submit to the Secretary of the Treasury of the**
 30 **United States the list of qualified scholarship granting**
 31 **organizations identified under section 2(a) of this chapter that are**
 32 **located in Indiana and publish the list submitted under this**
 33 **subsection on its website.**
 34 — **(b) The department shall on each list submitted under**
 35 **subsection (a) certify its authority to do so as required under**
 36 **Section 25F(g)(2) of the Internal Revenue Code.**
 37 — **Sec. 4. (a) A** **[to provide early childhood scholarships to**
 38 **qualified children in which not more than twenty five percent**
 39 **(25%) of the early childhood] scholarship granting** **<organization**
 40 **is eligible to be included on the list of qualified scholarship**
 41 **granting organizations submitted by the department to the**
 42 **Secretary of the Treasury of the United States under this chapter;**



1 if the organization:

2 — (1) is a nonprofit organization with the primary purpose of
 3 providing [organization's total contributions for the
 4 program in a taxable year are used to provide early
 5 childhood] scholarships to <students; and
 6 — (2) meets the requirements described in Section 25F(c)(5) of
 7 the Internal Revenue Code:
 8 — (b) A scholarship granting organization (as defined in
 9 IC 6-3-1-30.5-3(1)) for purposes of the tax credit [attend a
 10 particular qualified early child care provider.

11 Sec. 5. As used in this chapter, "pass through entity" has the
 12 meaning set forth in IC 6-3-1-35.

13 Sec. 6. As used in this chapter, "qualified child" means a child
 14 that is not more than six (6) years of age.

15 Sec. 7. As used in this chapter, "qualified early child care
 16 provider" refers to a child care provider that:

17 (1) is:

18 (A) a licensed child care center under IC 12-17.2-4;
 19 (B) a licensed child care home under IC 12-17.2-5; or
 20 (C) a licensed child care ministry under IC 12-17.2-6;
 21 that meets the standards of quality recognized by a Level 3
 22 or Level 4 Paths to QUALITY program rating under
 23 IC 12-17.2-2-14.2 or has a comparable rating from a
 24 nationally recognized accrediting body;
 25 (2) is a state accredited school as described in
 26 IC 20-18-2-18.8;
 27 (3) is a state accredited nonpublic school as described in
 28 IC 20-18-2-18.7; or
 29 (4) is a school that is accredited by or obtains provisional
 30 accreditation from a national or regional accreditation
 31 agency that is recognized by the state board.

32 Sec. 8. As used in this chapter, "state tax liability" means a
 33 taxpayer's total tax liability that is incurred under:

34 (1) IC 6-3-1 through IC 6-3-7 (the adjusted gross income
 35 tax);
 36 (2) IC 6-5.5 (the financial institutions tax); and
 37 (3) IC 27-1-18-2 (the insurance premiums tax) or IC 6-8-15
 38 (the nonprofit agricultural organization health coverage
 39 tax);

40 as computed after the application of the credits that] under
 41 IC 6-3. <1-30.5 is eligible to be included on the list of qualified
 42 scholarship granting organizations under this chapter, if the



1 scholarship granting organization meets the requirements under
 2 subsection (a). Each year the department shall provide to the
 3 department of state revenue a list of the scholarship granting
 4 organizations (as defined in IC 6-3.1-30.5-3(1)) that are also
 5 included on the list of qualified scholarship granting organizations
 6 submitted by the department to the Secretary of the Treasury of
 7 the United States under>[1-1-2 are to be applied before the credit
 8 provided by] this chapter.

9 Sec. ~~5. The department shall adopt rules under IC 4-22-2~~
 10 ~~regarding:~~

11 ~~(1) the administration process; and~~
 12 ~~(2) the documentation necessary;~~

13 ~~for an entity to be listed as a qualified>~~[9. As used in this chapter,
 14 "taxpayer" means an individual or entity that has any state tax
 15 liability.

16 Sec. 10. A taxpayer that makes a contribution to an early
 17 childhood] scholarship granting organization <under>[for use by
 18 the early childhood scholarship granting organization for an early
 19 childhood scholarship program is entitled to a credit against the
 20 taxpayer's state tax liability in the taxable year in which the
 21 taxpayer makes the contribution.

22 Sec. 11. The amount of a taxpayer's credit is equal to fifty
 23 percent (50%) of the amount of the contribution made to the early
 24 childhood scholarship granting organization for an early childhood
 25 scholarship program.

26 Sec. 12. (a) If the credit provided by this chapter exceeds the
 27 taxpayer's state tax liability for the taxable year for which the
 28 credit is first claimed, the excess may be carried forward to
 29 succeeding taxable years and used as a credit against the
 30 taxpayer's state tax liability during those taxable years. Each time
 31 the credit is carried forward to a succeeding taxable year, the
 32 credit is reduced by the amount that was used as a credit during
 33 the immediately preceding taxable year. The credit provided by
 34 this chapter may be carried forward and applied to succeeding
 35 taxable years for nine (9) taxable years following the unused credit
 36 year.

37 (b) A taxpayer is not entitled to a carryback or refund of any
 38 unused credit.

39 Sec. 13. If a pass through entity is entitled to a credit under
 40 section 10 of this chapter but does not have state tax liability
 41 against which the tax credit may be applied, a shareholder,
 42 partner, or member of the pass through entity is entitled to a tax



1 **credit equal to:**

2 **(1) the tax credit determined for the pass through entity for**

3 **the taxable year; multiplied by**

4 **(2) the percentage of the pass through entity's distributive**

5 **income to which the shareholder, partner, or member is**

6 **entitled.**

7 **Sec. 14. To apply a credit against the taxpayer's state tax**

8 **liability, a taxpayer must claim the credit on the taxpayer's annual**

9 **state tax return or returns in the manner prescribed by the**

10 **department. The taxpayer shall submit to the department the**

11 **information that the department determines is necessary for the**

12 **department to determine whether the taxpayer is eligible for the**

13 **credit.**

14 **Sec. 15. A contribution to an early childhood scholarship**

15 **granting organization shall be treated as having been made for use**

16 **in an early childhood scholarship program if:**

17 **(1) the contribution is made directly to an early childhood**

18 **scholarship granting organization; and**

19 **(2) either:**

20 **(A) not later than the date of the contribution, the**

21 **taxpayer designates in writing to the early childhood**

22 **scholarship granting organization that the contribution**

23 **is to be used only for an early childhood scholarship**

24 **program; or**

25 **(B) the early childhood scholarship granting**

26 **organization provides the taxpayer with written**

27 **confirmation that the contribution will be dedicated**

28 **solely for use in an early childhood scholarship**

29 **program.**

30 **Sec. 16. The total amount of tax credits awarded under this**

31 **chapter in a state fiscal year may not exceed one hundred million**

32 **dollars (\$100,000,000).**

33 **Sec. 17. The department, on a website used by the department**

34 **to provide information to the public, shall provide the following**

35 **information:**

36 **(1) The application for the credit provided in this chapter.**

37 **(2) A timeline for receiving the credit provided in this**

38 **chapter.**

39 **(3) The total amount of credits awarded under this chapter**

40 **during the current state fiscal year.**

41 **Sec. 18. The department shall adopt rules under IC 4-22-2 to**

42 **implement] this chapter.**



1 SECTION ~~44~~ [2. IC 20-20-28-5.5 IS ADDED TO THE INDIANA
 2 CODE AS A NEW SECTION TO READ AS FOLLOWS
 3 [EFFECTIVE JULY 1, 2026]: Sec. 5.5. A school corporation that
 4 operates an early childhood education program may not limit
 5 consideration for participation in the program solely to those
 6 residing within the school district.

7 SECTION 3. IC 20-51-1-4.1 IS ADDED TO THE INDIANA
 8 CODE AS A NEW SECTION TO READ AS FOLLOWS
 9 [EFFECTIVE JULY 1, 2026]: Sec. 4.1. "Early childhood
 10 scholarship" refers to a grant to pay only the cost of child care
 11 tuition or expenses for a qualified child as determined for the fiscal
 12 year for which the scholarship will be granted.

13 SECTION 4. IC 20-51-1-4.2 IS ADDED TO THE INDIANA
 14 CODE AS A NEW SECTION TO READ AS FOLLOWS
 15 [EFFECTIVE JULY 1, 2026]: Sec. 4.2. "Early childhood scholarship
 16 granting organization" refers to an organization that:

- 17 (1) is exempt from federal income taxation under Section
 18 501(c)(3) of the Internal Revenue Code; and
- 19 (2) is organized at least in part to grant early childhood
 20 education scholarships without limiting the availability of
 21 early childhood scholarships to students of only one (1)
 22 qualified early child care provider.

23 SECTION 5. IC 20-51-1-6.2 IS ADDED TO THE INDIANA
 24 CODE AS A NEW SECTION TO READ AS FOLLOWS
 25 [EFFECTIVE JULY 1, 2026]: Sec. 6.2. "Qualified child" refers to a
 26 child who:

- 27 (1) resides in Indiana; and
- 28 (2) is not more than six (6) years of age.

29 SECTION 6. IC 20-51-1-6.4 IS ADDED TO THE INDIANA
 30 CODE AS A NEW SECTION TO READ AS FOLLOWS
 31 [EFFECTIVE JULY 1, 2026]: Sec. 6.4. "Qualified early child care
 32 provider" refers to a child care provider that:

- 33 (1) is:
 - 34 (A) a licensed child care center under IC 12-17.2-4;
 - 35 (B) a licensed child care home under IC 12-17.2-5; or
 - 36 (C) a licensed child care ministry under IC 12-17.2-6;
- 37 that meets the standards of quality recognized by a Level 3
 38 or Level 4 Paths to QUALITY program rating under
 39 IC 12-17.2-2-14.2 or has a comparable rating from a
 40 nationally recognized accrediting body;
- 41 (2) is a state accredited school as described in
 42 IC 20-18-2-18.8;



(3) is a state accredited nonpublic school as described in IC 20-18-2-18.7; or

(4) is a school that is accredited by or obtains provisional accreditation from a national or regional accreditation agency that is recognized by the state board.

SECTION 7. IC 20-51-5 IS ADDED TO THE INDIANA CODE AS A NEW CHAPTER TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2026]:

Chapter 5. Early Childhood Scholarship Granting Organizations; Certification; Administration of Contributions

Sec. 1. A program qualifies for certification as an early childhood scholarship program if:

(1) the program:

(A) is administered by an early childhood scholarship granting organization; and

(B) has the primary purpose of providing early childhood scholarships to qualified children; and

(2) the early childhood scholarship granting organization administering the program:

(A) applies to the department on the form and in the manner prescribed by the department; and

(B) enters into an agreement with the department to comply with this article.

Sec. 2. The department shall certify all programs that meet the qualifications under section 1 of this chapter as school scholarship programs.

Sec. 3. An agreement entered into under section 1 of this chapter between the department and an early childhood scholarship granting organization must require the early childhood scholarship granting organization to do the following:

(1) Provide a receipt to taxpayers for contributions made to the early childhood scholarship granting organization that will be used in an early childhood scholarship program. The department of state revenue shall prescribe a standardized form for the receipt issued under this subdivision. The receipt must indicate the value of the contribution and the part of the contribution being designated for use in an early childhood scholarship program.

(2) Allow a taxpayer to designate a qualified early child care provider for which the taxpayer's contribution must be used as scholarships.

(3) Use not more than ten percent (10%) of the total amount

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(4) Distribute one hundred percent (100%) of any income earned on contributions as early childhood scholarships to qualified children.

(5) Conduct criminal background checks on all the early childhood scholarship granting organization's employees and board members and exclude from employment or governance any individual who might reasonably pose a risk to the appropriate use of contributed funds.

(6) Make the reports required by this chapter.

Sec. 4. An agreement entered into under section 1 of this chapter may not prohibit an early childhood scholarship granting organization from receiving contributions other than contributions described in section 3(1) of this chapter.

Sec. 5. (a) An agreement entered into under section 1 of this chapter must prohibit an early childhood scholarship granting organization from distributing scholarships for use by a qualified child to:

(1) enroll in a qualified early child care provider that has:

(A) paid staff or board members; or

(B) relatives of paid staff or board members;

in common with the early childhood scholarship granting organization;

(2) enroll in a qualified early child care provider that the early childhood scholarship granting organization knows does not qualify as a qualified early child care provider; or

(3) pay for the cost of child care for a qualified early child care provider where the qualified child is entitled to enroll without the payment of tuition.

(b) An agreement entered into under section 1 of this chapter must prohibit an early childhood scholarship granting organization from limiting the availability of scholarships to children of only one (1) qualified early child care provider. An agreement entered into under section 1 of this chapter before July 1, 2026, must be amended to include the requirement specified in this subsection.

Sec. 6. (a) An early childhood scholarship granting organization certified under this chapter must publicly report to the department by December 1 of each year the following information regarding the organization's scholarships awarded in the previous school year:

(1) The name and address of the early childhood scholarship granting organization.



1 (2) The total number and total dollar amount of
 2 contributions received during the previous fiscal year.

3 (3) The:

4 (A) total number and total dollar amount of all
 5 scholarships awarded during the previous fiscal year;
 6 and

7 (B) total number and total dollar amount of early
 8 childhood scholarships awarded during the previous
 9 fiscal year.

10 The report must be certified under penalties of perjury by the chief
 11 executive officer of the early childhood scholarship granting
 12 organization.

13 (b) An early childhood scholarship granting organization
 14 certified under this chapter shall contract with an independent
 15 certified public accountant for an annual financial audit of the
 16 early childhood scholarship granting organization. The early
 17 childhood scholarship granting organization must provide a copy
 18 of the annual financial audit to the department and must make the
 19 annual financial audit available to a member of the public upon
 20 request.

21 Sec. 7. The department shall prescribe a standardized form for
 22 early childhood scholarship granting organizations to report
 23 information required under this chapter.

24 Sec. 8. The department may, in a proceeding under IC 4-21.5,
 25 suspend or terminate the certification of an organization as an
 26 early childhood scholarship granting organization if the
 27 department establishes that the early childhood scholarship
 28 granting organization:

29 (1) has intentionally and substantially failed to comply with
 30 the requirements of this chapter or an agreement entered
 31 into under this chapter; or

32 (2) has not granted an early childhood scholarship, as
 33 defined in IC 20-51-1-4.1, for either:

34 (A) three (3) consecutive years; or

35 (B) within the first two (2) years of operation as a
 36 certified early childhood scholarship granting
 37 organization.

38 Sec. 9. If the department suspends or terminates the
 39 certification of an organization as an early childhood scholarship
 40 granting organization, the department shall notify all affected
 41 eligible students and their parents of the decision as quickly as
 42 possible. An eligible student affected by a suspension or



1 termination of an early childhood scholarship granting
 2 organization's certification remains an eligible student under this
 3 chapter until the end of the school year after the school year in
 4 which the early childhood scholarship granting organization's
 5 certification is suspended or terminated, regardless of whether the
 6 scholarship student currently meets the definition of an eligible
 7 student.

8 Sec. 10. The department may conduct either a financial review
 9 or an audit of an early childhood scholarship granting organization
 10 certified under this chapter if the department of state revenue has
 11 evidence of fraud.

12 Sec. 11. The department may adopt rules under IC 4-22-2 to
 13 implement this chapter.

14 SECTION 8. IC 21-18-9-12 IS ADDED TO THE INDIANA
 15 CODE AS A NEW SECTION TO READ AS FOLLOWS
 16 [EFFECTIVE JULY 1, 2026]: **Sec. 12.** (a) As used in this section,
 17 "low earning outcome degree program" refers to the term as
 18 described in Section 84001(c)(2) of the One Big Beautiful Bill Act
 19 of 2025 (Public Law 119-21).

20 (b) The commission shall adopt rules to prohibit funding that
 21 the commission administers under IC 21-18-6-2 or IC 21-18.5-4
 22 from being allocated or expended, directly or indirectly, to low
 23 earning outcome degree programs. The rules must include
 24 allocations or expenditures for the following categories of higher
 25 education funding:

26 (1) Individual student financial aid.

27 (2) Separately or specially appropriated aid or grants.

28 (c) The commission shall annually review updated federal
 29 determinations of low earning outcome degree programs to revise
 30 the rules adopted under subsection (b) as necessary.

31 (d) The commission shall submit an annual report to the
 32 general assembly, in an electronic format under IC 5-14-6, that
 33 includes the following information:

34 (1) Any low earning outcome degree program that the
 35 commission has prohibited from receiving funding described
 36 in subsection (b).

37 (2) The commission's efforts at enforcing the prohibitions
 38 described in subsection (b).

39 (3) The estimated fiscal impact of the prohibitions described
 40 in subsection (b).

41 SECTION ~~25~~²⁵[9]. IC 22-4.1-4-16 IS ADDED TO THE INDIANA
 42 CODE AS A NEW SECTION TO READ AS FOLLOWS



1 [EFFECTIVE JULY 1, 2026]: Sec. 16. (a) The following definitions
 2 apply throughout this section:

3 (1) "Eligible workforce training program" refers to a
 4 program that meets the requirements in Section 83002 of the
 5 federal One Big Beautiful Bill Act of 2025 (Public Law
 6 119-21).

7 (2) "High skill industry sectors or occupations" refers to
 8 sectors or occupations that require postsecondary education,
 9 experience, or training beyond a high school diploma.

10 (3) "High wage industry sectors or occupations" refers to
 11 sectors or occupations with earnings above one hundred fifty
 12 percent (150%) of the federal poverty level for individual
 13 earners.

14 (4) "In demand industry sectors or occupations" refers to
 15 sectors or occupations identified:

16 (A) in state, regional, or local workforce development or
 17 labor market projections;

18 (B) as growing or emerging sectors or occupations; or
 19 (C) as having projected shortages or hiring demand.

20 (b) The department shall do the following:

21 (1) Establish a process to identify and approve eligible
 22 workforce training programs that prepare students for:

23 (A) high skill industry sectors or occupations;

24 (B) high wage industry sectors or occupations; and

25 (C) in demand industry sectors or occupations;

26 for workforce Pell grants.

27 (2) Establish a process for institutions and programs to:

28 (A) apply for recognition as an eligible workforce
 29 training program;

30 (B) be approved for workforce Pell grants; and

31 (C) appeal denials of workforce Pell grants.

32 (3) Coordinate the approval of eligible workforce training
 33 programs with:

34 (A) workforce focused agencies;

35 (B) workforce related programs; and

36 (C) state and federal programs.

37 (4) Require eligible workforce training programs to provide
 38 data to demonstrate program outcomes, as determined by
 39 the department, including:

40 (A) program completion rates;

41 (B) job placement rates; and

42 (C) graduate earnings.



~~← SECTION 6. An emergency is declared for this act. →~~

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