Just the Facts:

Kentucky Small Business Tax Credit

July 2026

This fact sheet provides an overview of the Kentucky Small Business Tax Credit (KSBTC) Program. For a full discussion of the program requirements, please see KRS 154.60. As with all state administered tax incentive programs, any inducements offered to an eligible company under the KSBTC program are negotiated by Cabinet for Economic Development officials and subject to approval by the Kentucky Economic Development Finance Authority (KEDFA).

Incentive

The Kentucky Small Business Tax Credit (KSBTC) program allows eligible small businesses paying taxes imposed by KRS 141.020 (income tax on individuals), 141.040 (corporation income tax), or 141.0401 (limited liability entity tax) to apply for a Kentucky state income tax credit. Subject to a statutory cap of $3,000,000 in tax credits per state fiscal year (shared between the KSBTC program and the Kentucky Selling Farmer Tax Credit program), KSBTC provides a non-refundable state income tax credit between $3,500 - $25,000 for small businesses that create and fill one or more eligible positions and invest $5,000 or more in qualifying equipment or technology. Qualified applicants are eligible to receive a tax credit in an amount not to exceed the lesser of: 1) $3,500 per eligible position; or 2) the rounded eligible dollar amount invested in qualifying equipment or technology. Applicants are also subject to a $25,000 maximum tax credit cap per applicant for each calendar year.

Eligible Companies

Eligible small businesses include for-profit entities that have fifty (50) or fewer full-time employees at the time of application. Refer to the “Eligible Applicants” section of the KSBTC Guidelines for certain exceptions.

Minimum Requirements for Eligible Projects

Requirements to qualify for the incentives:

- Employment and wage minimum requirement
  - » Prior to requesting a tax credit through this program, a small business applicant must create and fill one or more eligible positions. An eligible position is a full-time position that increases the base employment of the business. The position must be filled for twelve months, pay at least 150 percent of the federal minimum wage, and be subject to the individual income tax imposed by KRS 141.020.

- Investment minimum requirement
  - » An applicant must spend $5,000 or more on qualifying equipment or technology. Qualifying equipment or technology must be purchased within the twenty-four month period immediately preceding submission of an application. Qualifying equipment or technology is defined as tangible property purchased by the applicant business for use in the business in Kentucky (not for resale or personal use), with an expected useful life of one year or more and approved by the Office

of Entrepreneurship and Innovation. Examples of qualifying equipment or technology include, but are not limited to: computers, equipment, furniture, fixtures, furnishings (excluding artwork), and vehicles titled in the legal name of the business. Real property, buildings, and consumable supplies do not qualify.

Small businesses may apply for a tax credit after the following two criteria have been met: 1) at least one Eligible Position has been created and filled for twelve consecutive months (see the KSBTC Guidelines for a possible exception to the consecutive months requirement); and 2) at least $5,000 of qualifying equipment or technology has been purchased. Applications must be submitted within the twenty four month period after the first program requirement occurs (e.g., start date of initial Eligible Position or purchase of initial qualifying equipment or technology).

The Process and Fee

Before applying, potential applicants should thoroughly review the KSBTC Guidelines to determine eligibility. Go to the KSBTC web page for complete submission information. An application fee of two hundred fifty dollars ($250) will be due if the application is selected for submission to the Kentucky Economic Development Finance Authority (KEDFA) for recommended tax credit approval.

If approved by KEDFA, the applicant is responsible for claiming the non-refundable tax credit on its tax return for the tax year in which the small business tax credit is approved. Unused credits may be carried forward up to five years.

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