

STATE OF NEW YORK

5866

2025-2026 Regular Sessions

IN SENATE

March 3, 2025

Introduced by Sen. GOUNARDES -- read twice and ordered printed, and when printed to be committed to the Committee on Investigations and Government Operations

AN ACT to amend the tax law, in relation to establishing the New York state early childcare savings program

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1 Section 1. The tax law is amended by adding a new article 24-C to read
2 as follows:

3 ARTICLE 24-C

4 NEW YORK STATE EARLY CHILDCARE

5 SAVINGS PROGRAM

6 Section 880. Program established.

7 881. Purposes.

8 882. Definitions.

9 883. Functions of the comptroller.

10 884. Powers of the comptroller.

11 885. Program requirements; early childcare savings account.

12 886. Program limitations; early childcare savings.

13 § 880. Program established. There is hereby established the New York
14 state early childcare savings program.

15 § 881. Purposes. The purposes of the program shall be to authorize the
16 establishment of early childcare savings accounts and to provide guide-
17 lines for the maintenance of such accounts to:

18 1. Enable residents of this state to benefit from the tax incentive
19 provided for qualified early childcare savings accounts under section
20 six hundred twelve of this chapter;

21 2. Allow more residents to stay in the workforce by providing a means
22 to save and pay for childcare; and

23 3. Provide opportunities for all children to receive quality child-
24 care.

EXPLANATION--Matter in italics (underscored) is new; matter in brackets
[-] is old law to be omitted.

LBD07781-01-5

1 § 882. Definitions. As used in this article, the following terms shall
2 have the following meanings:

3 1. "Account" or "early childcare savings account" shall mean an indi-
4 vidual savings account established in accordance with the provisions of
5 this article.

6 2. "Account owner" shall mean a taxpayer who enters into an early
7 childcare savings agreement pursuant to the provisions of this article,
8 including a person who enters into such an agreement as a fiduciary or
9 agent on behalf of a trust, estate, partnership, association, company or
10 corporation.

11 3. "Designated beneficiary" shall mean, with respect to an account or
12 accounts, the designated individual whose early childcare expenses are
13 expected to be paid from the account or accounts.

14 4. "Financial organization" shall mean an organization authorized to
15 do business in the state, and (a) which is an authorized fiduciary to
16 act as a trustee pursuant to the provisions of an act of congress enti-
17 tled "Employee Retirement Income Security Act of 1974", as such
18 provisions may be amended from time to time, or an insurance company;
19 and (b)(i) is licensed or chartered by the department of financial
20 services, (ii) is chartered by an agency of the federal government,
21 (iii) is subject to the jurisdiction and regulation of the securities
22 and exchange commission of the federal government, (iv) is any other
23 entity otherwise authorized to act in this state as a trustee pursuant
24 to the provisions of an act of congress entitled "Employee Retirement
25 Income Security Act of 1974", as such provisions may be amended from
26 time to time, or (v) is any banking organization as defined in subdivi-
27 sion eleven of section two of the banking law, national banking associ-
28 ation, state chartered credit union, federal mutual savings bank, feder-
29 al savings and loan association or federal credit union.

30 5. "Eligible childcare facilities" shall mean any licensed full-day
31 childcare and early education program and centers, licensed part time
32 childcare and early education program and centers; family childcare
33 homes; and afterschool programs for children aged five through twelve.

34 6. "Program" shall mean the New York early childcare savings program
35 established pursuant to this article.

36 7. "Qualified early childcare expenses" shall mean monies applied for
37 the services of a licensed child day care center, group family day care
38 home, family day care home and school age child care as such terms are
39 defined in section three hundred ninety of the social services law.

40 8. "Qualified withdrawal" shall mean a withdrawal from an account to
41 pay the qualified early childcare expense of the designated beneficiary
42 of the account.

43 9. "Nonqualified withdrawal" shall mean a withdrawal from an account
44 including but not limited to expenses for primary, secondary, or post-
45 secondary education, but shall not include:

46 (a) a qualified withdrawal;

47 (b) a withdrawal made as the result of death;

48 (c) an unforeseeable emergency; or

49 (d) need based upon qualifying for military service in the armed forc-
50 es of the United States as determined by rules and regulations promul-
51 gated by the comptroller.

52 10. "Management contract" shall mean the contract executed by the
53 comptroller and a financial organization selected to act as a depository
54 and manager of the program.

1 11. "Early childcare savings agreement" shall mean an agreement
2 between the comptroller or a financial organization and the account
3 owner.

4 12. "Program manager" shall mean a financial organization selected by
5 the comptroller to act as a depository and manager of the program.

6 § 883. Functions of the comptroller. 1. The comptroller shall imple-
7 ment the program under the terms and conditions established by this
8 article and a memorandum of understanding with the commissioner relating
9 to any terms or conditions not otherwise expressly provided for in this
10 article.

11 2. In furtherance of such implementation the comptroller shall:

12 (a) develop and implement the program in a manner consistent with the
13 provisions of this article through rules and regulations established in
14 accordance with the state administrative procedure act;

15 (b) engage the services of consultants on a contract basis for render-
16 ing professional and technical assistance and advice;

17 (c) make changes to the program required for the participants in the
18 program to obtain the state income tax benefits or treatment provided by
19 this article;

20 (d) charge, impose and collect administrative fees and service charges
21 in connection with any agreement, contract or transaction relating to
22 the program;

23 (e) develop marketing plans and promotion materials;

24 (f) establish the methods by which the funds held in such accounts be
25 dispersed;

26 (g) establish the method by which funds shall be allocated to pay for
27 administrative costs; and

28 (h) do all things necessary and proper to carry out the purposes of
29 this article.

30 § 884. Powers of the comptroller. 1. The comptroller may implement the
31 program through use of financial organizations as account depositories
32 and managers. Under the program, an account owner may establish accounts
33 directly with an account depository.

34 2. The comptroller may solicit proposals from financial organizations
35 to act as depositories and managers of the program. Financial organiza-
36 tions submitting proposals shall describe the investment instrument
37 which will be held in accounts. The comptroller shall select as program
38 depositories and managers the financial organization, from among the
39 bidding financial organizations that demonstrates the most advantageous
40 combination, both to potential program participants and this state, of
41 the following factors:

42 (a) financial stability and integrity of the financial organization;

43 (b) the safety of the investment instrument being offered;

44 (c) the ability of the financial organization to satisfy recordkeeping
45 and reporting requirements;

46 (d) the financial organization's plan for promoting the program and
47 the investment it is willing to make to promote the program;

48 (e) the fees, if any, proposed to be charged to persons for opening
49 accounts;

50 (f) the minimum initial deposit and minimum contributions that the
51 financial organization will require;

52 (g) the ability of banking organizations to accept electronic with-
53 drawals, including payroll deduction plans; and

54 (h) other benefits to the state or its residents included in the
55 proposal, including fees payable to the state to cover expenses of oper-
56 ation of the program.

1 3. The comptroller may enter into a contract with a financial organ-
2 ization. Such financial organization management may provide one or more
3 types of investment instrument.

4 4. The comptroller may select more than one financial organization for
5 the program.

6 5. A management contract shall include, at a minimum, terms requiring
7 the financial organization to:

8 (a) take any action required to keep the program in compliance with
9 requirements of section eight hundred eighty-five of this article and
10 any actions not contrary to its contract to manage the program to quali-
11 fy as an "early childcare savings account" under this article;

12 (b) keep adequate records of each account, keep each account segre-
13 gated from each other account, and provide the comptroller with the
14 information necessary to prepare the statements required by section
15 eight hundred eighty-five of this article;

16 (c) compile and total information contained in statements required to
17 be prepared under subsection fifteen of section eight hundred eighty-
18 five of this article and provide such compilations to the comptroller;

19 (d) if there is more than one program manager, provide the comptroller
20 with such information necessary to determine compliance with section
21 eight hundred eighty-five of this article;

22 (e) provide the comptroller or their designee access to the books and
23 records of the program manager to the extent needed to determine compli-
24 ance with the contract;

25 (f) hold all accounts for the benefit of the account owner;

26 (g) be audited at least annually by a firm of certified public
27 accountants selected by the program manager and that the results of such
28 audit be provided to the comptroller;

29 (h) provide the comptroller with copies of all regulatory filings and
30 reports made by it during the term of the management contract or while
31 it is holding any accounts, other than confidential filings or reports
32 that will not become part of the program. The program manager shall make
33 available for review by the comptroller the results of any periodic
34 examination of such manager by any state or federal banking, insurance
35 or securities commission, except to the extent that such report or
36 reports may not be disclosed under applicable law or the rules of such
37 commission; and

38 (i) ensure that any description of the program, whether in writing or
39 through the use of any media, is consistent with the marketing plan as
40 developed pursuant to the provisions of section eight hundred eighty-
41 three of this article.

42 6. The comptroller may provide that an audit shall be conducted of the
43 operations and financial position of the program depository and manager
44 at any time if the comptroller has any reason to be concerned about the
45 financial position, the recordkeeping practices, or the status of
46 accounts of such program depository and manager.

47 7. During the term of any contract with a program manager, the comp-
48 troller shall conduct an examination of such manager and its handling of
49 accounts. Such examination shall be conducted at least biennially if
50 such manager is not otherwise subject to periodic examination by the
51 superintendent of financial services, the federal deposit insurance
52 corporation or other similar entity.

53 8. (a) If selection of a financial organization as a program manager
54 or depository is not renewed, after the end of its term:

55 (i) accounts previously established and held in investment instruments
56 at such financial organization may be terminated;

1 (ii) additional contributions may be made to such accounts;
2 (iii) no new accounts may be placed with such financial organization;
3 and
4 (iv) existing accounts held by such depository shall remain subject to
5 all oversight and reporting requirements established by the comptroller.

6 (b) If the comptroller terminates a financial organization as a
7 program manager or depository, the comptroller shall take custody of
8 accounts held by such financial organization and shall seek to promptly
9 transfer such accounts to another financial organization that is
10 selected as a program manager or depository and into investment instru-
11 ments as similar to the original instruments as possible.

12 9. The comptroller may enter into such contracts as it deems necessary
13 and proper for the implementation of the program.

14 § 885. Program requirements; early childcare savings account. 1. Early
15 childcare savings accounts established pursuant to the provisions of
16 this article shall be governed by the provisions of this section.

17 2. An early childcare savings account may be opened by any person who
18 desires to save money for the payment of the qualified early childcare
19 expenses of the designated beneficiary. An account owner may designate
20 another person as successor owner of the account in the event of the
21 death of the original account owner. Such person who opens an account or
22 any successor owner shall be considered the account owner.

23 (a) An application for such account shall be in the form prescribed by
24 the program and contain the following:

25 (i) the name, address and social security number or employer identifi-
26 cation number of the account owner;

27 (ii) the designation of a designated beneficiary;

28 (iii) the name, address, and social security number of the designated
29 beneficiary; and

30 (iv) such other information as the program may require.

31 (b) The comptroller and the corporation may establish a nominal fee
32 for such application.

33 3. Any person, including the account owner, may make contributions to
34 the account after the account is opened.

35 4. Contributions to accounts may be made only in cash.

36 5. An account owner may withdraw all or part of the balance from an
37 account as authorized under rules governing the program. Such rules
38 shall include provisions that will generally enable the determination as
39 to whether a withdrawal is a nonqualified withdrawal or a qualified
40 withdrawal.

41 6. (a) An account owner may change the designated beneficiary of an
42 account in accordance with procedures established by the memorandum of
43 understanding pursuant to the provisions of section eight hundred eight-
44 y-three of this article.

45 (b) An account owner may transfer all or a portion of an account to
46 another early childcare savings account.

47 (c) Changes in designated beneficiaries and transfers under this
48 subdivision shall not be permitted to the extent that they would cause
49 all accounts for the same beneficiary to exceed the permitted aggregate
50 maximum account balance.

51 7. The program shall provide separate accounting for each designated
52 beneficiary.

53 8. No account owner or designated beneficiary of any account shall be
54 permitted to direct the investment of any contributions to an account or
55 the earnings thereon more than two times in any calendar year.

1 9. Neither an account owner nor a designated beneficiary may use an
2 interest in an account as security for a loan. Any pledge of an interest
3 in an account shall be of no force and effect.

4 10. The comptroller shall promulgate rules or regulations to prevent
5 contributions on behalf of a designated beneficiary in excess of an
6 amount that would cause the aggregate account balance for all accounts
7 for a designated beneficiary to exceed a maximum account balance, as
8 established from time to time by the comptroller.

9 11. Contributions to an early childcare savings account shall be
10 limited to one hundred thousand dollars per account. This amount shall
11 not take into consideration any gain or loss to the principal investment
12 into the account.

13 12. In the event that an individual makes a "nonqualified withdrawal"
14 of monies from the early childcare savings account such individual shall
15 have the entire account taxed, including any interest, as though it was
16 income at the account owner's federal tax rate in the tax years the
17 monies were withdrawn, and incur an additional ten percent state penalty
18 on the amount of earnings. The penalty shall be in addition to any taxes
19 due pursuant to a nonqualified withdrawal from an early childcare
20 savings account.

21 13. Penalties may be waived by the commissioner if the individual can
22 show proof that the reason the individual did not use the qualified
23 childcare expenses was due to either:

24 (a) an employment relocation outside the state and such relocation
25 required the individual to become a resident of another state;

26 (b) an unforeseeable emergency;

27 (c) an absence due to qualifying military service; or

28 (d) death.

29 For purposes of this subdivision, an "unforeseeable emergency" shall
30 mean a severe financial hardship resulting from illness, accident or
31 property loss to the account owner, or their dependents resulting in
32 circumstances beyond their control. The circumstances that constitute an
33 unforeseeable financial emergency will depend on the facts of each case,
34 however, withdrawal of account funds may not be made, without penalty,
35 to the extent that such hardship is or may be relieved by either:

36 (i) reimbursement or compensation by insurance or otherwise; or

37 (ii) liquidation of the individual's assets to the extent the liqui-
38 dation of such assets would not itself cause severe financial hardship.

39 14. The commissioner and the comptroller are directed to promulgate
40 all rules and regulations necessary to implement the provisions of this
41 subsection and are hereby directed to establish, supervise and regulate
42 early childcare savings accounts authorized to be created by this
43 section.

44 15. (a) If there is any distribution from an early childcare savings
45 account to any individual or for the benefit of any individual during a
46 calendar year, such distribution shall be reported to the department and
47 the account owner, the designated beneficiary, or the distributee to the
48 extent required by law or regulation.

49 (b) Statements shall be provided to each account owner at least once
50 each year within sixty days after the end of the twelve-month period to
51 which they relate. The statement shall identify the contributions made
52 during a preceding twelve-month period, the total contributions made to
53 the account through the end of the period, the value of the account at
54 the end of such period, distributions made during such period and any
55 other information that the comptroller shall require to be reported to
56 the account owner.

1 (c) Statements and information relating to accounts shall be prepared
2 and filed to the extent required by this chapter.

3 16. An annual fee may be imposed upon the account owner for the main-
4 tenance of the account.

5 17. The program shall disclose the following information in writing to
6 each account owner of an early childcare savings account:

7 (a) the terms and conditions for establishing an early childcare
8 savings account;

9 (b) any restrictions on the substitution of beneficiaries;

10 (c) the person or entity entitled to terminate the early childcare
11 savings agreement;

12 (d) the period of time during which a beneficiary may receive benefits
13 under the early childcare savings agreement;

14 (e) the terms and conditions under which money may be wholly or
15 partially withdrawn from the program, including, but not limited to, any
16 reasonable charges and fees that may be imposed for withdrawal;

17 (f) the probable tax consequences associated with contributions to and
18 distributions from accounts; and

19 (g) all other rights and obligations pursuant to early childcare
20 savings agreements, and any other terms, conditions, and provisions
21 deemed necessary and appropriate by the terms of the memorandum of
22 understanding entered into pursuant to section eight hundred eighty-
23 three of this article.

24 18. Early childcare savings agreements shall be subject to section
25 fourteen-c of the banking law and the "truth-in-savings" regulations
26 promulgated thereunder.

27 19. Nothing in this article or in any early childcare savings agree-
28 ment entered into pursuant to this article shall be construed as a guar-
29 antee by the state that the account owner or designated beneficiary will
30 be admitted to a licensed childcare, early education program, family
31 childcare home, or after school program.

32 20. Monies withdrawn from early childcare savings accounts and any
33 interest which has accrued shall not be considered as taxable income to
34 the account owner for state personal income taxation purposes, so long
35 as the monies are applied for the qualified early childcare expenses by
36 the account owner or designated beneficiary of the account.

37 § 886. Program limitations; early childcare savings. 1. Nothing in
38 this article shall be construed to:

39 (a) give any designated beneficiary any rights or legal interest with
40 respect to an account unless the designated beneficiary is the account
41 owner;

42 (b) create state residency for an individual merely because the indi-
43 vidual is a designated beneficiary; or

44 (c) guarantee that amounts saved pursuant to the program will be
45 sufficient to cover the qualified early childcare expenses of a desig-
46 nated beneficiary.

47 2. (a) Nothing in this article shall create or be construed to create
48 any obligation of the comptroller, the state, or any agency or instru-
49 mentality of the state to guarantee for the benefit of the account owner
50 or designated beneficiary with respect to:

51 (i) the rate of interest or other return on any account; or

52 (ii) the payment of interest or other return on any account.

53 (b) The comptroller shall, by rule or regulation, provide that every
54 contract, application, deposit slip or other similar document that may
55 be used in connection with a contribution to an account clearly indicate

1 that the account is not insured by the state and neither the principal
2 deposited nor the investment return is guaranteed by the state.

3 § 2. Subsection (b) of section 612 of the tax law is amended by adding
4 a new paragraph 44 to read as follows:

5 (44) (A) Excess distributions received during the taxable year by a
6 distributee of an early childcare savings account established under the
7 New York state early childcare savings program provided for under arti-
8 cle twenty-four-C of this chapter, to the extent such excess distrib-
9 utions are deemed attributable to the deductible contributions under
10 paragraph forty-nine of subsection (c) of this section.

11 (B) (i) The term "excess distributions" means distributions which are
12 not:

13 (I) qualified withdrawals within the meaning of subsection eight of
14 section eight hundred eighty-two of this chapter;

15 (II) withdrawals made as a result of the death or disability of the
16 designated beneficiary within the meaning of subsection three of section
17 eight hundred eighty-two of this chapter; or

18 (III) transfers described in paragraph (b) of subsection six of
19 section eight hundred eighty-five of this chapter.

20 (ii) Excess distributions shall be deemed attributable to deductible
21 contributions to the extent the amount of any such excess distribution,
22 when added to all previous excess distributions from the account,
23 exceeds the aggregate of all nondeductible contributions to the account.

24 § 3. Subsection (c) of section 612 of the tax law is amended by adding
25 two new paragraphs 48 and 49 to read as follows:

26 (48) Contributions made during the taxable year by an account owner to
27 one or more early childcare savings accounts established under the New
28 York state early childcare savings program provided for under article
29 twenty-four-C of this chapter, to the extent not deductible or eligible
30 for credit for federal income tax purposes; provided, however, the
31 exclusion provided for in this paragraph shall not exceed five thousand
32 dollars for an individual or head of household, and for married couples
33 who file joint tax returns, shall not exceed ten thousand dollars;
34 provided, further that such exclusion shall be available only to the
35 account owner and not to any other person.

36 (49) Distributions from a family early childcare savings account
37 established under the New York state early childcare savings program
38 provided for under article twenty-four-C of this chapter, to the extent
39 includible in gross income for federal income tax purposes.

40 § 4. This act shall take effect on the one hundred eightieth day after
41 it shall have become a law, and shall apply to taxable years commencing
42 on or after the first of January next succeeding the date on which it
43 shall have become a law. Effective immediately, the addition, amendment
44 and/or repeal of any rule or regulation necessary for the implementation
45 of this act on its effective date are authorized to be made and
46 completed on or before such effective date.