

## EXHIBIT B TAX INFORMATION

The following discussion summarizes certain aspects of federal and state income, gift, estate, and generation-skipping transfer tax consequences relating to the Illinois College Savings Pool and Contributions to, earnings of, and withdrawals from the Accounts. The summary is not exhaustive and is not intended as individual tax advice. In addition, there can be no assurance that the Internal Revenue Service (“IRS”) or Illinois Department of Revenue will accept the statements made herein or, if challenged, that such statements would be sustained in court. The applicable tax rules are complex, and certain of the rules are at present uncertain, and their application to any particular person may vary according to facts and circumstances specific to that person. The Internal Revenue Code and regulations thereunder, and judicial and administrative interpretations thereof, are subject to change, retroactively or prospectively, and no one under the Pool will be entitled to receive or be obligated to give notice of any such changes or modifications. A qualified tax advisor should be consulted regarding the application of law in individual circumstances.

This summary is based on the relevant provisions of the Internal Revenue Code of 1986, as amended (the “Code”), Illinois State tax law, and proposed Treasury regulations. It is possible that Congress, the Treasury Department, the IRS, the State of Illinois, and other taxing authorities or the courts may take actions that will adversely affect the tax law consequences described and that such adverse effects may be retroactive. No final tax regulations or rulings concerning the Illinois College Savings Pool have been issued by the IRS and, when issued, such regulations or rulings may alter the tax consequences summarized herein or necessitate changes in the Pool to achieve the tax benefits described. The summary does not address the potential effects on Account Owners or Beneficiaries of the tax laws of any state other than Illinois.

### **Certain Illinois State Tax Consequences**

Legislation governing the tax treatment of the Accounts was passed by the Illinois General Assembly in 2000, and became effective as of January 1, 2001. Illinois law provides that the assets of the Program and its income are exempt from all taxation by the State of Illinois and any of its subdivisions and that the accrued earnings on investments in the Program disbursed on behalf of a Beneficiary are exempt from all taxation by the State of Illinois and its subdivisions, so long as they are used for qualified higher education expenses. However, for distributions not used for qualified higher education expenses, the earnings portion would be subject to Illinois tax for Illinois taxpayers to the extent included in the taxpayer’s federal adjusted gross income.

For tax years beginning on or after January 1, 2005, individuals who file individual Illinois state income tax returns will be able to deduct up to \$10,000 per tax year for their total, combined contributions to the Program, to the Bright Start College Savings Program, and to College Illinois! during that tax year. The Illinois Department of Revenue has stated, in informal advice that is not binding on the Department of Revenue, that

- A deduction of up to \$20,000 will be permitted for married taxpayers filing joint Illinois state income tax returns for their total, combined contributions to the Program, to the Bright Start College Savings Program, and to College Illinois! during that tax year; and
- The \$10,000 (individual) and \$20,000 (joint) limitations on deductions will apply to the total contributions made to the Program, to the Bright Start College Savings Program, and College Illinois! without regard to whether the contributions are made to a single account or more than one account.

A contribution must be post-marked no later than December 31st of a tax year in order to be eligible to be deducted with respect to such tax year. The Illinois Department of Revenue has stated (in a non-binding general information letter) that the state income tax deduction is available to individuals other than the Account Owner who contribute to an Account. The deduction for Illinois individual income tax purposes for contributions to the Program does not apply to transfers between accounts of different designated beneficiaries. The Illinois Department of Revenue has stated (in informal guidance that is not binding on the Department) that in the case of a rollover from another state’s qualified tuition program, the amount of the rollover that is treated as a return of the original contribution to the old plan (but not the earnings portion of the rollover) is eligible for the deduction for Illinois individual income tax purposes.

For taxable years beginning on or after January 1, 2007, Illinois law provides for the recapture of Illinois state tax benefits in the event an Account Owner rolls over an Account to an out-of-state qualified tuition program. The adjusted gross income of an Illinois taxpayer who rolls over an Account to an out-of-state qualified tuition program will be increased by the amount of money the Account Owner has previously deducted from his or her Illinois base income for contributions made to the Program. Before rolling over your Account to an out-of-state qualified tuition program, you should consult with your legal and tax advisors.

For taxable years beginning on or after January 1, 2007, the earnings portion of distributions from non-Illinois qualified tuition programs are no longer subject to Illinois income tax so long as the non-Illinois qualified tuition program adopts and determines that its offering materials comply with the College Savings Plan Network’s disclosure principles and has made reasonable efforts to inform Illinois residents and financial intermediaries distributing the non-Illinois program of the existence of Illinois qualified tuition programs.

### **Federal Income Tax Treatment of the Pool, Contributions, and Withdrawals**

The Illinois College Savings Pool is designed to be a “qualified tuition program” under Section 529 of the Code. As such, undistributed investment earnings in the Pool are exempt from federal income tax. Earnings of the Pool credited to an Account will not be includible in the federal gross income of the Account Owner or Beneficiary until funds are withdrawn, in whole or in

part, from the Account. The treatment of a withdrawal from an Account will vary depending on the nature of the withdrawal. Contributions are not deductible for federal income tax purposes.

If there are earnings in an Account, each distribution from the Account consists of two parts. One part is a return of the contributions to the Account (the “Contributions Portion”). The other part is a distribution of earnings in the Account (the “Earnings Portion”). A pro rata calculation is made as of the date of the distribution of the Earnings Portion and the Contributions Portion of the distribution.

#### ***Qualified Withdrawals***

If a Qualified Withdrawal is made from an Account, no portion of the distribution is includible in the gross income of either the Beneficiary or the Account Owner.

#### ***Qualified Rollover Distributions***

No portion of a Qualified Rollover Distribution is includible in the gross income of either the Beneficiary or the Account Owner.

#### ***Nonqualified Withdrawals***

To the extent that a withdrawal from an Account is a Nonqualified Withdrawal, the Earnings Portion of such Nonqualified Withdrawal is includible in the federal gross income of the recipient of the withdrawal for the year in which the withdrawal is made. The Contributions Portion is not includible in gross income.

Generally, the recipient of a Nonqualified Withdrawal will also be subject to a “penalty tax” equal to 10% of the Earnings Portion of the withdrawal.

There are, however, exceptions to the penalty tax for Nonqualified Withdrawals made on account of the following:

- The death of the Beneficiary of the Account;
- If the Beneficiary of the Account becomes disabled within the meaning of Section 72(m)(7) of the Code, a withdrawal by the Account Owner will not be subject to the penalty tax;
- If the Beneficiary of the Account receives a scholarship, allowance, or payment described in Section 25A(g)(2) of the Internal Revenue Code, a withdrawal by the Account Owner will not be subject to the penalty tax to the extent that the amount of the withdrawal does not exceed the amount of the scholarship, allowance or payment;
- If a Hope Scholarship Credit and/or Lifetime Learning Credit is allowed to any person for payment of the Beneficiary’s Qualified Higher Education Costs, the Earnings Portion of the part of the Nonqualified Withdrawal equal to such expenses will not be subject to the penalty tax; and
- If a Beneficiary attends the United States Military Academy, the United States Naval Academy, the United States Air Force Academy, the United States Coast

Guard Academy, or the United States Merchant Marine Academy, a Nonqualified Withdrawal from an Account will not be subject to the penalty tax to the extent that the Nonqualified Withdrawal does not exceed the costs of “advanced education,” as that term is defined in 10 U.S.C. Section 2005(e)(3), attributable to such attendance.

#### ***Change of Beneficiaries***

A change in the Beneficiary of an Account is not treated as a distribution if the new beneficiary is a Member of the Family of the former Beneficiary. However, if the new beneficiary is not a Member of the Family of the former Beneficiary, the change is treated as a Nonqualified Withdrawal by the Account Owner. A change of the Beneficiary of an Account or a transfer to an Account for another Beneficiary may have federal gift tax or generation-skipping transfer tax consequences.

#### ***Aggregation of Accounts***

All Accounts for the benefit of a single Beneficiary and having the same Account Owner, including any accounts in other Illinois Section 529 plans, must be treated as a single account for purposes of calculating the Earnings Portion of each withdrawal. Thus, if more than one Account is created for a Beneficiary that has the same Account Owner and a Nonqualified Withdrawal is made from one or more accounts, the amount includible in taxable income must be calculated based on the Earnings Portion of all accounts. The amount withdrawn from an Account may carry with it a greater or lesser amount of income than the Earnings Portion of that Account alone, depending on the Earnings Portion of other accounts for that Beneficiary. In the case of a Nonqualified Withdrawal or other taxable distribution, this aggregation rule may result in an Account Owner being taxed upon more or less income than that directly attributable to the Earnings Portion of the Account from which the withdrawal was made.

#### ***Annual Tax Reporting***

For any year there are withdrawals from your Account, the Program Manager will send out a Form 1099-Q. This form sets forth the total amount of the distribution and identifies the Earnings Portion and the Contribution Portion of each withdrawal. If the distribution is made to the Account Owner, the Form 1099-Q will be sent to them. If the distribution is to the Beneficiary or made directly to the Institution of Higher Education, the Form 1099-Q will be sent to the Beneficiary. You should consult with your tax professional for the proper tax reporting and treatment of distributions.

#### ***Coordination With Other Higher Education Cost Benefit Programs***

The tax benefits afforded to qualified tuition programs such as the Program must be coordinated with other programs designed to provide tax benefits for meeting higher education expenses in order to avoid the duplication of such benefits. The coordinated programs include Coverdell Education Savings Accounts under Section 530 of the Code and Hope and Lifetime Learning Credits under Section 25A of the Code.

### ***Coverdell Education Savings Accounts***

An individual may contribute to, or withdraw money from, both a qualified tuition program account and a Coverdell Education Savings Account in the same year. However, to the extent the total withdrawals from both accounts exceed the amount of Higher Education Costs that qualify for tax-free treatment under Section 529 of the Code, the recipient must allocate his or her Higher Education Costs between both such withdrawals in order to determine how much may be treated as tax-free under each program.

### ***Hope Scholarship and Lifetime Learning Tax Credits***

The use of a Hope Scholarship tax credit or Lifetime Learning tax credit by a qualifying Account Owner and Beneficiary will not affect participation in or receipt of benefits from a qualified tuition program account, so long as any withdrawal from the account is not used for the same expenses for which the credit was claimed.

### **Federal Gift, Estate, and Generation Skipping Transfer Taxes**

Contributions to an Account are considered completed gifts to the Beneficiary of the Account for federal estate, gift, and generation skipping transfer tax purposes. Except as described below, if an Account Owner dies while there is a balance in the Account, the value of the Account is not includible in the Account Owner's gross estate for federal estate tax purposes. However, amounts in an Account at the death of the Beneficiary are includible in the Beneficiary's gross estate.

A donor's gifts to a donee in any given year will not be taxable if the gifts are eligible for, and do not in total exceed, the gift tax "annual exclusion" for such year. For 2009, the annual exclusion is \$13,000 per donee, or twice that amount (i.e. \$26,000) for a married donor whose spouse elects on a Federal Gift Tax Return to "split" gifts with the donor. The annual exclusion is indexed for inflation and is expected to increase in the future.

Under Section 529, a donor's contributions to an Account for a Beneficiary are eligible for the gift tax annual exclusion. Contributions that qualify for the gift tax annual exclusion are also excludible for purposes of the Federal generation-skipping transfer ("GST") tax. Accordingly, so long as the donor's total contributions to Accounts for the Beneficiary in any year (together with any other gifts made by the donor to the Beneficiary in such year) do not exceed the annual exclusion amount for such year, the donor's contributions will not be considered taxable gifts and will be excludible for purposes of the GST tax.

In addition, if a donor's total contributions to Accounts for a Beneficiary in a single year exceed the annual exclusion for such year, the donor may elect to treat contributions that total up to five times the annual exclusion (or up to ten times if the donor and his or her spouse split gifts) as having been made ratably over a five year period. Consequently, a single donor may contribute up to \$65,000 in a single year without incurring federal gift tax, so long as the donor makes no other gifts to the same Beneficiary during the calendar year in which the Contribution is made or any of the next four calendar years.

### **An election to have the contribution taken into account ratably over a five-year period must be made by the donor on a Federal Gift Tax Return, IRS Form 709.**

For example, an Account Owner who makes a \$65,000 contribution to an Account for a Beneficiary in 2009 may elect to have that contribution treated as a \$13,000 gift in 2009 and a \$13,000 gift in each of the following four years. If the Account Owner makes no other contributions or gifts to the beneficiary before January 1, 2014, and has made no excess contributions treated as gifts subject to the one-fifth rule during any of the previous four years, the Account Owner will not be treated as making any taxable gifts to the Beneficiary during that five-year period. As a result, the \$65,000 contribution will not be treated as a taxable gift and will be excludible for purposes of the GST tax. However, if the Account Owner dies before the end of the five year period, the portion of the contributions allocable to years after the year of death will be includible in the Account Owner's gross estate for federal estate tax purposes.

A change of the Beneficiary of an Account or a transfer to an Account for another Beneficiary may have federal gift tax consequences. Specifically, if the new Beneficiary is in a younger generation than the replaced Beneficiary, the change or transfer will be treated for federal gift tax purposes as a gift from the replaced Beneficiary to the new Beneficiary. If the new Beneficiary is not a descendant of the replaced Beneficiary, the new Beneficiary will be considered to be in a younger generation than the replaced Beneficiary if the new Beneficiary is more than 12 1/2 years younger than the replaced Beneficiary. Moreover, even if the new Beneficiary is in the same generation as (or in an older generation than) the replaced Beneficiary, the change or transfer may be treated as a gift from the replaced Beneficiary to the new Beneficiary if the new Beneficiary is not a Member of the Family of the replaced Beneficiary. Any change or transfer treated as a gift from the replaced Beneficiary to the new Beneficiary may cause the replaced Beneficiary to be liable for federal gift tax or cause other undesirable tax consequences.

A change of the Beneficiary of an Account or a transfer to an Account for another Beneficiary may also have GST tax consequences. A change or transfer will be considered a generation-skipping transfer if the new Beneficiary is two or more generations younger than the replaced Beneficiary. Any change or transfer treated as a generation-skipping transfer from the replaced Beneficiary to the new Beneficiary may cause the replaced Beneficiary to be liable for GST tax or cause other undesirable tax consequences.

A change of Account ownership may also have gift and/or GST tax consequences. Accordingly, Account Owners should consult their own tax advisors for guidance when considering a change of Beneficiary or Account ownership.

**Lack of Certainty of Tax Consequences**

At the date of this Program Disclosure Statement, proposed regulations have been issued under Section 529 of the Code upon which taxpayers may rely at least until final regulations are issued. The proposed regulations do not, however, provide guidance on various aspects of the Illinois College Savings Pool. It is uncertain when final regulations will be issued. There can be no assurance that the Federal tax consequences described herein for Account Owners and Beneficiaries will continue to be applicable. Section 529 of the Code or other Federal law could be amended in a manner that would materially change or eliminate the federal tax treatment described above. The Program Manager and Treasurer intend to modify the Program within the constraints of applicable law for the Program to meet the requirements of Section 529 of the Code. In the event that the Program, as currently structured or as subsequently modified, does not meet the requirements of Section 529 of the Code for any reason, the tax consequences to the Account Owner and Beneficiaries are uncertain, and it is possible that Account Owners could be subject to taxes currently on undistributed earnings in their respective Accounts as well as to other adverse tax consequences. A potential Account Owner may wish to consider consulting a tax advisor.

For other changes to the tax consequences of participation in the Program, see “Certain Risks to Consider” above.