Office of the Illinois State Treasurer
Judy Baar Topinka

Request for Proposals

Transition Services, Banking Services, Recordkeeping and Customer Service, Investment Management and Custodial Services, Marketing Services and Legal Services for Bright Start

May 1, 2006
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I. General Information and Requirements

A. Introduction and Background

The Office of the Illinois State Treasurer (the “Treasurer”) is the Trustee and Administrator for the Illinois College Savings Pool (the “Pool”), which currently includes the Bright Start College Savings Program (“Bright Start”) and the Bright Directions College Savings Program ("Bright Directions"). Through this Request for Proposals ("RFP") the Treasurer seeks a qualified entity or entities to administer Bright Start. The overriding goal of the Treasurer is to offer current and potential participants the lowest cost, direct-sold 529 Plan in the nation in addition to offering a lineup of high-quality funds and investment options.

The Treasurer encourages Illinois financial institutions, recordkeeping and customer service providers, investment services managers, marketing firms and law firms as well as large financial service providers to bid on this RFP. The entity or entities selected through this RFP will provide transition, banking, account, investment management, custodial, marketing and legal services for Bright Start. In order to accomplish the goal of keeping costs down for participants, the Treasurer is willing to explore handling a number of functions in house and reserves a right to charge a fee for obtaining those services. For example, the Treasurer may contract separately with a law firm to handle legal issues and may handle the majority of marketing efforts. The Treasurer intends to contract with a financial institution to provide lockbox and processing services. It is anticipated that one entity (and any approved subcontractors) will be chosen through this RFP to perform account administration services. Through this RFP, the Treasurer invites Fund Managers to propose inclusion of funds in Bright Start and financial professionals to propose a plan to provide administrative services to Bright Start, including banks who wish to provide lockbox and processing services. The Treasurer may choose to contract with multiple vendors to provide the services requested herein.

The Illinois College Savings Pool was created pursuant to Illinois Public Act 91-0607 (the “Act”), which authorized the Treasurer to develop and implement the Pool. The Pool is designed to comply with Section 529 of the Internal Revenue Code of 1986, as amended ("Section 529" and the “Code”), offering Illinois residents and investors nationwide the opportunity to save for higher education on a tax-advantaged basis. Additionally, passage of Public Acts 91-829, 92-439, 92-626 and 93-812 resulted in attractive state tax benefits to Illinois taxpayers who save for higher education through the Pool. (See Appendix A for text of all Public Acts.) Specifically, individual Illinois taxpayers may deduct from State of Illinois taxable income moneys contributed to the Pool in the current taxable year, and income on the Pool is
exempt from State taxation while it accrues and upon withdrawal if used for qualified higher educational expenses.

Pursuant to the Act, the Treasurer developed *Bright Start*, which was offered to the public as of March 27, 2000. The current College Pool Services Agreement was negotiated with and executed by Salomon Smith Barney, Inc., which subsequently became Citigroup Asset Management. On December 1, 2005, the College Savings Pool Services Agreement was assigned to Legg Mason Investor Services LLC ("Legg Mason"), which currently serves as Investment Services Manager of *Bright Start* in accordance with the College Savings Pool Services Agreement that is effective through March 24, 2007. As Investment Services Manager, Legg Mason provides Services to the Treasurer, including investment management, customer service and recordkeeping, marketing and distribution. For the same annual cost (0.99% annually on average daily net assets), investors can open *Bright Start* accounts with or without the involvement of professional financial advisors. Legg Mason provides a commission of 50 basis points to financial advisors that sell *Bright Start*. As of March 31, 2006, *Bright Start* assets totaled $1,792,087,126 in 133,141 accounts. Illinois investors represent 73.89% of assets and 71.63% of all accounts. Upon consenting to the assignment to Legg Mason, the Treasurer reserved the right to terminate the College Savings Pool Services Agreement prior to the stated termination date. The Treasurer has determined that the tremendous growth and success that *Bright Start* has enjoyed will allow the opportunity to negotiate pricing levels to provide an even greater benefit to current and potential participants. The Treasurer intends to offer this low cost program at the earliest opportunity.

The Treasurer’s goals are to offer the lowest cost 529 Plan in the nation, to retain the highest quality investment vehicles, to extend equal consideration to all qualified entities or consortia and to allow more Illinois families to save money for higher education expenses. The Treasurer is focused on consumer pricing, and the successful bidder must focus, in part, on providing reasonable fees to participants. *Bright Start* will continue to comply with all federal and state statutes and regulations governing Section 529 programs, and each Investment Services Manager will cooperate to ensure joint compliance with such legal requirements. This is a negotiated procurement pursuant to the Treasurer’s Procurement Regulations (44 Ill. Adm. Code 1400). We direct your attention specifically to the mandatory state certifications and disclosures required in Appendices C, D and E and to the required proposal details set forth below. The Treasurer hopes to have the transition complete by at the earliest opportunity.

*Bright Directions* is the Treasurer's multi-manager 529 Plan sold by financial professionals. A "best of class" fund lineup is utilized, and low-cost consumer pricing is a key focus. The Investment Services Manager for *Bright Directions* is Union Bank & Trust Company. The program has been offered
since November, 2005. In the program's short existence, the number of accounts has grown to 2,196 as of April 24, 2006, and the amount of assets under management has increased to $21.3 million. Union Bank will continue to offer *Bright Directions* to the public and through financial professionals that choose to distribute it, and the successful proposer(s) will offer the direct-sold *Bright Start* to the public. It is anticipated that *Bright Start* and *Bright Directions* will continue to complement each other, rather than compete with one another.

**B. Proposers’ Teleconference**

A mandatory proposers’ teleconference will be held at 10:30 a.m. central time on May 25, 2006. For those wishing to attend, the conference will originate in Chicago at the James R. Thompson Center, 100 West Randolph Street, Suite 15-600. All attendees must fax a letter of their intention to participate, designating whether they will attend in person or via telephone, to the attention of Ed Buckles at (217) 524-3822 no later than 4 p.m. on May 19, 2006. All proposers will receive a confirmation statement regarding their attendance, and those who will participate via telephone will receive instructions for calling into the teleconference. Proposers may submit questions in writing prior to the teleconference, however, responses will not be binding upon the RFP unless they are provided by the Treasurer in writing. The Treasurer will accept written inquiries until June 2, 2006, and written responses will be posted on the Treasurer’s website at [www.state.il.us/treas/](http://www.state.il.us/treas/) on or before June 16, 2006.

**C. Timetable of Events**

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<th>Item</th>
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<tr>
<td>Request for Proposals Issued</td>
<td>May 1, 2006</td>
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<tr>
<td>Mandatory Proposers’ Teleconference</td>
<td>May 25, 2006</td>
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<tr>
<td>Submission of Written Questions</td>
<td>June 2, 2006</td>
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<td>Responses to Written Questions Posted on Website</td>
<td>June 16, 2006</td>
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<td>Proposals Due</td>
<td>July 21, 2006</td>
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<td>Initial Evaluation Period and Requests for Additional Information Issued by Treasurer</td>
<td>July 21, 2006 – August 15, 2006</td>
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<td>Additional Information Due</td>
<td>August 30, 2006</td>
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<td>Finalist Chosen and Interviews/Site Visits</td>
<td>August 31, 2006 – September 15, 2006</td>
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<td>Item</td>
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<td>Requests for Best and Final Proposals (if necessary)</td>
<td>September 15, 2006</td>
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<td>Best and Final Proposals Due</td>
<td>September 20, 2006</td>
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<td>Notification of Award</td>
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<td>Contract Negotiation</td>
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<td>Contract Execution</td>
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<td>Plan Launch</td>
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The Treasurer reserves the right to modify the timetable above, and any such modification will be posted on the Treasurer’s website.

D. Term of Contract; Conflicts

The term of the contract(s) awarded pursuant to this Request for Proposals shall be 7 years, with an option to renew for 3 additional years, provided that the proposer(s) meets required objective performance criteria. The contract will incorporate this RFP, amendments and supplements to this RFP, any written questions and answers provided to proposers and the proposers’ response to the RFP. The contract also will incorporate all required clauses set forth in Section V of this RFP and the certifications and disclosures required pursuant to Illinois law and attached as Appendices C, D, and E. If there are any inconsistencies, the provisions of the documents shall prevail as follows: the contract, this RFP, the proposers’ response to the RFP.

E. No Communication with the Treasurer

From the date this RFP is issued until the contract award has been announced, no proposer may initiate any contact regarding this RFP with any official or employee of the Treasurer’s Office, other than written inquiries, which must be submitted by June 2, 2006. This prohibition includes, but is not limited to, any lobbying of individuals considered to have any influence over proposal evaluation and selection. Violation of this provision may be grounds for immediate disqualification.

F. Supplemental Written Information and Clarifications

Proposor may make a written request to modify or withdraw its proposal at any time prior to opening, however, no oral modifications will be allowed. Such requests shall be addressed in the same manner as the proposal and plainly marked MODIFICATION TO PROPOSAL, with the project title
shown, and if received by Treasurer prior to the scheduled closing time for reception of proposals, will be accepted. The original proposal will be modified after Treasurer receives the Modification.

After the proposals have been opened and reviewed, the Treasurer may require a proposer to clarify its proposal to assure a full understanding of responsiveness to the RFP. Any supplemental written information submitted may only be in response to a specific request from the Treasurer and may not otherwise alter or amend any information contained in the original proposal. The Treasurer reserves the right to request best and final offers from bidders prior to the award of the contract.

G. Cost of Proposal

The Treasurer is not responsible for any expenses incurred by the proposer in connection with the preparation or delivery of the RFP or any other activity related to this Request for Proposal.

H. Ownership

All responses to this Request for Proposals will become the property of the Treasurer and as such the Treasurer has the right to copy the proposal and to use ideas or adaptations of ideas that are presented in the proposals.

Any product, whether acceptable or unacceptable, developed under a contract awarded as a result of this Request for Proposals is to be the sole property of the Treasurer unless otherwise stated in a subsequent contract.

I. News Release Prohibition

Proposers and potential proposers shall not issue any news releases or make any statements pertaining to this Request for Proposals or a proposal, contract or work resulting from this Request for Proposals, without the prior written approval of the Treasurer.

J. Bids

All proposals must be valid for a period of 180 days from the due date of proposals

K. Submission Instructions

Sealed proposals must be submitted in two parts. The first part must contain responses to each question included in Section III as well as the mandatory
documentation required in Appendices C, D and E. The second part must include the completed cost proposal form, attached as Appendix B. All proposed fees, costs and other pricing information must be included in the cost proposal. The outside envelope or packaging of the proposals should be marked “Responses” and “Cost Proposal”, respectively.

Proposals should be based solely on the material contained in this Request for Proposals or subsequent amendments and modifications. Proposers should disregard any information from sources other than this RFP. Notice of any amendments, supplements or modifications will be posted on the Treasurer’s website, which should be reviewed on a daily basis.

Proposers should deliver one original and five copies by 3:00 p.m. central daylight time on July 21, 2006 to the following address:

Mr. Edward Buckles  
Chief Procurement Officer  
Office of the Illinois State Treasurer  
300 West Jefferson Street  
Springfield, Illinois 62702  
(217) 782-6540 phone

Proposals may be mailed or hand delivered. Proposals sent by fax or email will be rejected. Corrections or amendments to a proposal will not be accepted after the due date, except as expressly permitted by the Treasurer’s Procurement Code.

The original proposal must be marked "ORIGINAL COPY". All documents contained in the original proposal must have original signatures and must be signed by a person who is authorized to bind the proposing firm. The five additional copies may contain photocopies of the original package. Failure to adhere to the proposal requirements, instructions, conditions, and timetable may result in a proposal being judged by the Treasurer as nonresponsive.

L. Proposal Format

Proposals should be straightforward and concise, complete and accurate. Omissions, inaccuracies or misstatements will be sufficient cause for rejection.

Each proposal shall include a cover page showing the RFP title, the firm’s name; the name, address, telephone number, fax number and e-mail address of the firm’s senior-most manager for the proposal, and the date of the proposal.
The proposal must also include a signed transmittal letter signed by an individual authorized to contractually bind the firm, briefly stating the proposer’s understanding of the work to be done, the commitment and ability to perform the work within an agreed upon time frame and a statement that the proposal is a firm and irrevocable offer for a minimum of 180 days. The letter must also include a statement that the proposer accepts the Contractual Requirements set forth in Section V of the RFP, and all other terms and conditions included in this RFP.

The transmittal letter must also include the name, address, email, phone and fax numbers of (1) the principal contact authorized to make representations for and bind the proposer if other than the person signing the letter, (2) the project representative who will manage the engagement on a day-to-day basis, and (3) a key contact at each partner, if a consortium, and subcontractor, as well as that partner or subcontractor’s services responsibility under the Contract.

Proposers must: use standard 8 ½” x 11” white paper with a minimum type size of 12 points. Consecutively number all pages in the response (including attachments and/or appendices). Responses to each question should be provided in the same order as shown in Section III of this RFP, with the question repeated at the top of the first page of each answer.

M. Submission Detail

Proposals must be submitted for the performance of all the services described in the RFP. A proposal may be rejected if it is conditional or incomplete, or if it contains any alterations of form or other irregularities of any kind. The Treasurer may reject any or all proposals and may waive any immaterial deviation in a proposal. The waiver of immaterial defects shall in no way modify the RFP or excuse a proposer from full compliance with all requirements if awarded the contract. The Treasurer is not required to award a contract.

A proposer may withdraw its proposal by submitting a written withdrawal request signed by the proposer. A proposer may then submit a new proposal prior to the submission deadline. Proposals may not be withdrawn without cause subsequent to submission deadline.

The Treasurer may modify this RFP prior to the proposal due date by issuing an addendum which will be posted on its website at www.state.il.us/treas/. Proposers should review the website daily for information related to the RFP.

N. Treasurer’s Discretion

The Treasurer has sole discretion over all aspects of this RFP as well as the process of awarding a contract. Thus, the Treasurer may, but is not limited to,
take the following actions: (1) accepting or rejecting any or all proposals received, including proposals that are not in the required format; (2) delaying the proposal’s final filing date; (3) approving or disapproving any subcontractor, and disqualifying a proposal if any of the subcontractors are unable to deliver the services proposed in a timely manner; and (5) rejecting any proposed investment vehicle.

II. Services Sought for Bright Start

The Illinois Legislature authorized the Illinois College Savings Pool to assist students in meeting the challenges of paying for the increasing cost of higher education. The Treasurer created Bright Start to enable students to accomplish this task on a tax-advantaged, cost-effective basis. Today, the Treasurer seeks to expand participation in the Pool by offering the lowest cost 529 Plan in the nation. Bright Start will continue to complement Bright Directions. The following summaries are intended to assist proposers in understanding the roles of the various service providers and the service requirements the Treasurer envisions for continued effectiveness for Bright Start.

A. Banking Services

The Treasurer intends to honor her commitment to include Illinois Financial Institutions in the College Savings Pool. The concept of utilizing participating financial institutions for processing deposits, as outlined in the Act, has been unsuccessful, with a lack of interest within the industry. Through this RFP, the Treasurer is seeking an Illinois-based financial institution to provide traditional lockbox, processing and depository services, similar to those services already provided to various state agencies, for Bright Start. The Treasurer intends to procure and pay for these services in order to lessen the costs for participants. The Treasurer will rent a post office box with an Illinois address to receive account applications and contributions. The Bank or its agents will be authorized to access the lockboxes, and procedures will be developed for processing applications and accepting account contributions. The Bank will be required to perform all initial data entry relative to account applications. The Bank will also be required to provide electronic data, including, but not limited to, images of applications to the recordkeeping services provider in a timely fashion. Contributions will be deposited into an account held for the Pool. Funds will be transferred from this account in accordance with the Act.

The financial institution will assume full liability to credit the Pool’s account on a timely basis for deposits received. The financial institution will agree to compensate the Pool for any loss of revenue, including investment income potentially earned on delayed deposits. Such compensation will be determined on the basis of the daily Treasurer’s investment rate during the period which funds were unavailable.
The Treasurer agrees that the financial institution’s responsibility under the Agreement shall be limited to the exercise of reasonable care. Establishment of and substantial compliance with the procedures set forth or summarized in the contract by the financial institution shall be deemed to constitute the exercise of reasonable care.

B. Recordkeeping and Customer Service

_Bright Start_ must continue to provide excellent customer service to the participants. The Recordkeeping and Customer Service Provider must possess or develop an efficient operation to ensure timely availability and distribution of funds. It is equally important to keep adequate records of each account and to provide the _Bright Directions_ Investment Services Manager, the Treasurer and _CollegeIllinois!_ (administered by the Illinois Student Assistance Commission) with the information necessary to prepare statements required by the Act and by federal laws.

The Recordkeeping and Customer Service Provider must provide a means for participants or beneficiaries to express concerns, comments or complaints and must create and maintain a website and a toll-free voice response unit for customer service inquiries, account balance information, enrollment and distribution requests, e-mail and marketing information. The Recordkeeping and Customer Service Provider will also provide monthly and quarterly reports, as appropriate, to the Treasurer regarding account activity (new accounts and assets), relevant investment performance results and other agreed-upon program administration and potentially marketing information (including customer service inquires and results, the number and types of complaints and the manner in which they were resolved).

The Recordkeeping and Customer Service Provider must participate, at a minimum, in at least one teleconference per month with the Treasurer’s designee(s) and must respond within 24 hours to requests for telephone consultations.

The Recordkeeping and Customer Service Provider’s performance will be measured by objective performance criteria, which will be determined once a proposer is chosen and will become part of the contract.

The State of Illinois currently offers _Bright Directions_ and _CollegeIllinois!_, a prepaid tuition program. The Recordkeeping and Customer Service Provider will be expected to coordinate efforts between _CollegeIllinois!_, _Bright Start_ and _Bright Directions_ to ensure the Pool’s compliance with Section 529.

The Recordkeeping and Customer Service Provider will be responsible for complying with all applicable federal and State laws and regulations related to college savings and investment.
C. Investment Management and Custodial Services

The Treasurer is seeking to provide current and future participants with an option to save for college that is less expensive than any option that is currently available in the marketplace. The Treasurer is willing to consider the use of index funds, a single fund family and fewer investment options to drive down price on the low cost option. Proposals employing such cost saving measures should explain how to accommodate current participants that were initially enrolled in the program on the advice of a financial advisor, who prefer an actively managed portfolio or who prefer multiple investment options and fund families. A two-tiered approach may be required to provide participants with both a basic low-cost option and a more expensive alternative. The successful proposer(s) will offer a detailed explanation of how current Bright Start accounts will be effectively transitioned into new investment options. Minimal disruption to the account owners will be an important consideration. The Investment Services Manager must design investment options for Bright Start and recommend investment products and services to ensure the broadest array of reasonable investment options consistent with the Treasurer’s investment objectives and its Investment Policy Statement for Bright Start (The current policy is attached here to for informational purposes and designated as Appendix F.). If the Investment Services Manager recommends age-based investment products, it must analyze and evaluate such products based on the risk levels in relationship to proposed age groups. The Treasurer will review and has sole discretion to approve the Investment Services Manager’s recommended investment options and asset allocations and to include them in its Investment Policy Statement. The Treasurer’s Investment Policy, including recommended investment options and asset allocations, may be subject to change in consultation with the Investment Services Manager. Additionally, the Investment Services Manager must inform the Treasurer if significant changes in the investment climate or market conditions could affect investments in Bright Start.

The Investment Services Manager will be expected to develop and provide new account and asset projections through the term of the contract. The Treasurer and the Investment Services Manager may review and modify performance criteria on an annual basis based on industry norms, national trends, and revised projections. The Investment Services Manager’s performance will be measured by investment performance criteria, which will be determined once a proposer is chosen and will become part of the contract. These will include, but are not limited to, the Investment Services Manager’s recommendations, a review of fund performance and the handling of underperforming funds. Fund Managers who wish for their funds to be offered to participants but who do not wish to provide Investment Services to Bright Start may also offer proposals.
D. Marketing Services

The Treasurer intends to explore the possibility of contracting separately for marketing services for \textit{Bright Start}. Marketing firms are invited to offer proposals to perform these specific services. A proposer may also submit a proposal for a full-service agreement which will include marketing services (provided by that proposer or by approved subcontractors).

The MSRB requirements have made effective television advertising more difficult. The Treasurer feels that \textit{Bright Start}'s previous marketing efforts and the overall success and growth that the program has enjoyed have led to a successful branding of \textit{Bright Start}. The Treasurer also feels that by offering the lowest-priced, direct-sold 529 Plan in the nation, the program will receive greater interest and participation.

E. Legal Services

The Treasurer intends to explore the possibility of contracting separately for legal services for \textit{Bright Start}. Law firms are invited to offer proposals to perform these specific services. A proposer may also submit a proposal for a full-service agreement which will include legal services (provided by that proposer or by approved subcontractors).

III. Qualifications and Plan for Providing Services

A. Organization

1. Provide an overview of your firm including organizational and capital structure. Please explicitly identify the entity that will serve as the contract party, as well as all affiliates, subsidiaries and other entities that will provide services to \textit{Bright Start}. If the contract party is not a parent entity, then please indicate your willingness to provide a parent guarantee or propose a suitable alternative to ensure performance of the services to be provided pursuant to the contract. Please indicate whether the contract party or parent entity has a credit or financial strength rating from a national rating agency. In an Appendix, please provide copies of your audited financial statements for the past three (3) years as well as the most recent annual report and all SEC filings for the current fiscal year, if any, and most recent rating reports.

2. If your proposal is being submitted on behalf of a consortium or if it includes subcontractors, please describe in detail each partner or subcontractor’s responsibilities and how the relationships between the parties will function. Please
provide copies of the most recent audited financial statements for all proposed
partners or subcontractors.

3 List all key personnel who will be responsible for performing services pursuant to
this RFP, including the names, titles, office locations, responsibilities; total years
of experience, and years with firm. Provide professional resumes for each of these
individuals.

4 Provide an organizational chart showing the staffing lines of authority for the key
personnel included in Question 3 above. The relationship of service personnel to
management and to support personnel should be clearly illustrated.

5 Provide a statement as to whether any employees, agents, independent
contractors, subcontractors or partners have been convicted of, pled guilty to or
pled nolo contendere to any felony. If so, provide an explanation of the relevant
details. Please also provide a statement as to whether there is any pending or
threatened litigation against the proposer or any subcontractor or partner and if
such litigation exists, attach an opinion of counsel as to whether the pending
litigation will impair your performance in a contract under this RFP. Please
include any pending investigations related to the mutual fund industry.

6 Describe any measures your firm or entity has taken to demonstrate its
commitment to the college savings industry (i.e., dedicated staffing resources, key
personnel and distinct products).

7 Please describe any existing relationships or pending proposals that would have a
material impact on your firm or entity’s ability to provide services for a 529
program. What steps would you take to prevent conflicts with any other 529
contracts or relationships your firm or entity might have?

8 If applicable, describe the successes your firm or entity has experienced in
providing services for other 529 plans, including annual growth in both assets and
accounts. Describe any additional enhancements your firm or entity would make
if you were to provide services for Bright Start.

9 Provide a list, of any current contractual relationships with the State of Illinois and
those completed within the previous five-year period. The listing should include
contract term and procuring state agency for each reference.

B. Transition Services

1 Provide a preliminary work plan and a sequential step-by-step description of the
tasks or events proposed to transition from the existing Bright Start Program to
the Bright Start Program described in your proposal, relative to the areas of
service your proposal addresses. Include an implementation schedule and a
description of resources and personnel that will be devoted to the transition. Include a date certain for all implementation steps.

2 If applicable, describe any market-timing issues that could affect Bright Start participants in the transition process. How do you anticipate minimizing market movement and losses for participants?

3 To the extent this information is not already included in your responses under Organization above, please specify the key personnel assigned to perform each transition task and provide their resumes.

4 Identify any subcontractors you propose to use for the transition. Describe any previous experience with any such proposed subcontractors.

5 List all costs or fees you anticipate will accrue as a result of the transition process, and identify which party(s) would be responsible for such costs on Appendix B. **Do not include any pricing/cost information in this section of your proposal.**

C. Banking Services

1 Describe how you would receive, process and deposit contributions to the Pool's' account, including a description of applicable quality-control processes.

2 Describe how you would receive and process account applications in a timely manner, including a description of applicable quality-control processes. Describe imaging and other capabilities which would allow the transfer of application data in an electronic format to the Treasurer or a provider of recordkeeping services. What is the projected timeline for how quickly entered data could be transferred?

3 For each of the above responses, explain processes currently in place for similar clients.

4 Do you currently utilize a third party for any related services, including recordkeeping services? If so, describe the relationship with that third party. Would you be willing to hire a third party as a subcontractor to provide recordkeeping and customer service and maintain the primary responsibility for all underlying services?

5 Provide the average monthly transaction volumes by the proposer over the last six months in the following format:

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<th>Wholesale</th>
<th>Retail</th>
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<td>Items</td>
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<tr>
<td>Dollars</td>
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<td></td>
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</tbody>
</table>
Number of Lockboxes ___________________ ___________________

Number of Customers ___________________ ___________________

6 Please describe management reports that will be made available to the Treasurer and provide detail as to the available format(s) for such reports.

7 Include all costs and fees you anticipate will be charged for Banking Services on Appendix B. **Do not include any pricing/cost information in this section of your proposal.**

**D. Recordkeeping and Customer Service**

1 Describe your experience or the experience of your proposed subcontractor in individual account administration and recordkeeping, including the number of years that you have provided this service, the number of accounts you are currently responsible for, the frequency and volume of individual transactions that you process on a daily and weekly basis and the approximate dollar value of such accounts. Please break out separately any Section 529 experience.

2 Describe how you would work with the Illinois-based bank providing banking services to ensure all data related to accounts is processed and transferred. Describe proposed quality control measures that will be employed in this process.

3 Please explain the procedures you have in place or will build to ensure compliance with the requirements of 15 ILCS 505/16.5 and Section 529. Please specify how you would propose to coordinate these procedures with Bright Directions, particularly in preventing contributions in excess of allowable maximums, distributing funds from the program to “eligible educational institutions” and generating applicable tax reports upon Plan distributions. How will you determine if participants have made excess contributions and how will the participant be notified?

4 Describe how you will maintain account data and statements to ensure that the investment-related information, current accumulated contributions and net asset value for each participant and beneficiary are available on a daily basis. Explain how participants will access this information.

5 Please outline any other monthly or quarterly reports you will provide to the Treasurer. How soon after month or quarter end will these reports be available? Provide samples of all investment-related reports you will provide to the Treasurer and indicate their frequency.
6 Describe the process to support payment options for participants to make contributions (e.g. payroll deduction, direct deposit, ACH debits, credit card payments, on-line transfers, etc.).

7 Elaborate on the resources you would devote to service Bright Start (e.g. telephone lines, on-line account inquiries and staffing). Please describe the tools available on your proposed website and whether investors can enroll on-line.

8 Describe disaster recovery plans, including backup procedures, alternate operating facilities, hardware and software replacement and any testing procedures currently in place.

9 Identify any subcontractors you propose to use for administration and customer service, including a description of your previous experience with any such proposed subcontractor.

10 Explain how participants or beneficiaries will express concerns or comments. Describe the problem management and resolution procedures you propose and how and when concerns and comments will be reported to the Treasurer.

11 Include all costs and fees you anticipate will be charged for Recordkeeping and Customer Services on Appendix B and on the spreadsheet referenced in that Appendix. Do not include any pricing/cost information in this section of your proposal.

E. Investment Management and Custodial Services

1 The Treasurer wishes to select funds in a competitive manner. Those proposing to provide Administrative Services may wish to recommend their own specific funds for inclusion. Describe in detail the investment options and asset allocation portfolios you would recommend to the Treasurer, and explain how such options are consistent with your understanding of the objectives of Bright Start. There is no limit on the number of investment options or number of investment managers that may be proposed, but please include an investment option for conservative investors. Explain the advantages of any proposed investment option and how you believe it will benefit Bright Start.

2 Identify the investment manager and products you propose utilizing (include prospectuses if available) in each asset class and asset allocation portfolio. Please note that the Treasurer is not limiting your proposal to only one investment option within an asset class. Provide a detailed explanation of how the proposed strategy/investments will meet the investment needs of a broad range of participants.
3. Please provide the following information in table format for each underlying mutual fund investment you propose to include in any asset allocation option or as a single mutual fund investment option for Bright Start:

| Asset class category | Fund name and ticker | Investment philosophy | Share class to be used in Bright Start and all related fees | Lipper ranking as of 6/30/06 | Morningstar rating, if applicable as of 6/30/06 | Portfolio manager |

4. If you have funds you wish to include, please complete the chart below for each fund you propose to include in your investment options.

<table>
<thead>
<tr>
<th>Inception</th>
<th>Assets</th>
<th>1-year</th>
<th>3-year</th>
<th>5-year</th>
<th>10-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Benchmark</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

Please specify on Appendix B how the inclusion of these funds will affect pricing.

5. Please provide quarterly Lipper rankings and Morningstar ratings identifying the asset class category for each proposed mutual fund, beginning with the quarter ended June 30, 2002 and ending with the quarter ended June 30, 2006.

6. Describe in detail the processes you will engage in prior to recommending funds for selection by the Treasurer. How will you assist the Treasurer in selecting funds in a competitive manner?

7. How will you handle underperforming funds?

8. Please identify the auditor(s) that reviews the funds you propose to include in Bright Start. If a SAS-70 is available, please provide copies for the two (2) most recent years. If you do not have a SAS-70, please explain if your firm be willing to provide one in the future.

9. Provide a brief resume of the key investment professional assigned to manage each of the proposed investment portfolio products.

10. Please list all new institutional accounts acquired within the last three years. Specify the amount of assets under management, the investment discipline, and the term of the engagement.
If your proposal includes index funds, how should the Treasurer handle the fact that a number of existing participants joined the Bright Start seeking actively managed products?

How will we keep people who came into Bright Start through their advisor in the program?

List any institutional investment accounts lost within the past three years and note the reason(s) the account was lost.

Please provide a copy of the complete Federal Registration Form (ADV), including Parts I and II, and all schedules.

Include all costs and fees you anticipate will be charged for Investment Management and Custodial Services on Appendix B. Do not include any pricing/cost information in this section of your proposal.

F. Marketing Services

Provide an overview of your plan for marketing and promotion of Bright Start, including a description of what modes of communication you propose to use and how you would propose to use them.

Describe plans for statewide advertising, media placement, direct mail efforts, trade show activities, telemarketing etc.

Do you provide marketing services for any other 529 plans? If so, indicate your willingness to exclusively market Bright Start regionally or nationally.

Describe objectives for marketing and promoting Bright Start in states other than Illinois, including the specific marketing efforts that would be used.

Describe how you will measure the success of marketing efforts.

Identify any subcontractors you propose to use for marketing and promotion services. What previous experience do you have with any such proposed subcontractors?

Describe the cost for marketing services. Prices are to be included in the Cost Proposal Form, which is attached as Appendix B. Do not include any pricing/cost information in this section of your proposal.

In the event that your proposal does not include marketing services, please provide an overview of your expectations for marketing Bright Start. (If the
Treasurer handles marketing services in-house, what level of marketing commitment should the Treasurer demonstrate in order to reach your goals for increasing participation in *Bright Start*?

G. Legal Services

1. Describe your (or your firm's) experience in advising on 529 issues.

2. Describe your (or your firm's) experience in drafting and reviewing applicable documentation including program disclosure statements.

3. Describe the approximate cost for legal services. List applicable rates for all levels of personnel, fees and expenses. Prices are to be included in the Cost Proposal Form, which is attached as Appendix B. **Do not include any pricing/cost information in this section of your proposal.**

IV. Evaluation of Proposals

All proposals will be evaluated generally according to the following factors:

1. Pricing;
2. The plan for performing the required services;
3. A record of past performance of similar work;
4. The ability to perform the services as reflected by technical training and education, general experience, specific experience in providing the required services and the qualifications and abilities of personnel assigned to perform the services;
5. The personnel and facilities to perform the services currently available or demonstrated to be made available at the time of contracting.

The Treasurer’s staff and its consultants will review all proposals to confirm that all information has been submitted in conformity with the requirements of this RFP. Specific criteria which will be considered by the Treasurer in evaluating proposals will include, but will not be limited to the following: organization, investment structure, experience, distribution, administration and transition proposal and overall pricing structure and fees. The Treasurer may identify other qualities or characteristics deemed to be in the best interest of *Bright Start* participants.

The Treasurer’s staff and its consultants may, but are not obligated to, invite proposers for interviews or schedule site visits, and they may request clarifying information from any proposer prior to the interview or site visit.
Proposers invited for interviews/site visits will be evaluated based on the quality of their answers during the interview/site visit. Thus, the final selection will be based upon the quality of the written proposal, including clarity and thoroughness of the responses, and the strength of the interview/site visit. If interviews/site visits are not conducted, the final selection will be based on the quality of the written proposal only.

Under the Procurement Code, the Treasurer is not required to award a contract if the Treasurer does not receive proposals that are deemed to meet the RFP’s requirements.

V. Contractual Requirements

A. Contractual Responsibility

The Treasurer intends to select a service provider(s) to supply services in connection with Bright Start as specified in this Request for Proposals. The primary contractor(s) will be contractually responsible for all services provided, and may be required to provide a parent guarantee for all services. Nothing in the resulting agreement(s) shall grant an exclusive right to the service provider(s) to offer the services outlined in the agreement(s) to College Savings Pool participants.

B. Illinois Law

Any agreement(s) made in connection with this Request for Proposals is governed in all respects by the laws of the State of Illinois.

C. Internal Controls

The selected proposer(s) shall annually provide the Treasurer with a copy of a mutually acceptable audit attesting to the adequacy of internal controls utilized in the delivery of services pursuant to the Bright Start Services Agreement.

D. Disaster Recovery and Backup Facilities

The selected proposer(s) shall prepare and test a plan for recovery of financial transactions and related information in the event of a disaster or system failure. The selected proposer(s) shall furnish a copy of plans, test results, and the results of the annual audit of the disaster recovery plan to the Treasurer.

The selected proposer(s) represents and warrants that it has adequate backup and recovery capability to provide uninterrupted continuous deposit operation should catastrophic events render the provider’s primary facility inoperable.
E. Records Retention

The selected proposer(s) shall maintain, for a minimum of three years after the termination of this Agreement, adequate books, records, and supporting documents to verify the amounts, recipients, and uses of all disbursements of funds passing in conjunction with this Agreement; this Agreement and all books, records, and support documents related to this Agreement shall be available for review and audit by the Illinois Auditor General and the Treasurer; the selected proposer(s) must agree to cooperate fully with any audit conducted by the Auditor General or the Treasurer and to provide full access to all relevant materials. Failure to maintain the books, records and supporting documents required by this section shall establish a presumption in favor of the State for the recovery of any funds paid by the State under this Agreement for which adequate books, records, and supporting documentation are not available to support their purported disbursement.

F. Confidentiality and Security Requirements

The selected proposer(s) shall be prohibited from using or disclosing confidential information received while providing any services pursuant to the Agreement. Confidential information includes all information but the following; (i) information already known or independently developed by the recipient; (ii) information required to be released by law; (iii) information in the public domain through no wrongful act of the recipient; and (iv) information received by the recipient from a third party who was free to disclose it. The selected proposer(s) will comply with the Treasurer’s Privacy Policy and will be expected to have a privacy policy in place for Bright Start.

G. Subcontractors

The selected proposer(s) must state whether the services of a subcontractor will be used, and the selected proposer(s) must guarantee performance by the subcontractors. The Treasurer will have the right to approve all subcontracts and subcontractors, and the selected proposer(s) will be required to obtain written approval from the Treasurer prior to adding or changing subcontractors. Subcontractors will be required to complete the state certifications and disclosures, attached as Appendices C-E.

H. Assignment

Each term and provision of this Agreement is binding and enforceable against and inures to the benefit of any successors of the Treasurer and any successors
of the selected proposer(s), but neither this Agreement nor any of the rights, interests or obligations is assignable without the prior written consent of the other party.

Any attempt by the selected proposer(s) to transfer or assign any rights or obligations related to the provision of services under the Agreement, without the prior written consent of the Treasurer, shall render the Agreement voidable by the Treasurer.

The Treasurer may unilaterally bind any successor of the proposer(s) to the terms and conditions of any Agreement between the parties.

I. Termination for Cause/Reduction of Fee

Any Agreement(s), or any part of an Agreement, entered into as a result of this Request for Proposals may be terminated by the Chief Procurement Officer with the approval of the Treasurer and subject to the determination of the Chief Legal Counsel under any of the following circumstances:

1. The selected proposer(s) fails to furnish a satisfactory performance within the time specified.

2. The selected proposer(s) fails to perform any of the provisions of this contract, or so fails to make progress as to endanger performance of this contract in accordance with its terms.

3. Any services provided under the contract are rejected and are not promptly corrected by the selected proposer(s); or repeatedly rejected even though the selected proposer(s) offers to correct services promptly.

4. There is sufficient evidence to show that fraud, collusion, conspiracy, or other unlawful means obtained the contract.

5. The selected proposer(s) is guilty of misrepresentation in connection with another contract for services to the State and cannot reasonably be depended upon to fulfill their obligations under any of their contracts with the State.

6. The selected proposer(s) is adjudged bankrupt or enters into a general assignment for the benefit of their creditors or receivership due to insolvency.

7. The selected proposer(s) disregards laws and ordinances, rules, or instructions of a contracting officer or acts in violation of any provision of the contract or this part, or the contract conflicts with any statutory or constitutional provision of the State of Illinois or of the United States.
8. Any other breach of contract or other unlawful act by the selected proposer(s) occurs.

Prior to terminating the contract for cause, the Treasurer shall issue a written warning that outlines the remedial action necessary to bring the selected proposer(s) into conformance with the Agreement. If such remedial action is not completed to the satisfaction of the Treasurer within five business days, a second written warning may be issued. If satisfactory action is not taken by the selected proposer(s) within five business days of the date of the second written warning, the Agreement may be cancelled and the Treasurer may recover any and all damages involved with the transition to a new vendor including incidental and consequential damages. Failure by the Treasurer to issue a warning or cancel this Agreement does not waive any of the Treasurer's rights to issue subsequent warnings.

In addition, the Treasurer reserves the right to reduce the fee paid to the selected proposer(s) as compensation for services under the Agreement during any period selected proposer(s) fails to perform any of its obligations under the Agreement.

J. Services

The selected proposer(s) shall not modify any service or the manner of providing such service requirement under this Agreement without the prior written authorization of the Treasurer. Modification means any change to an existing service or the addition of a new service.

K. Access to Information

Upon request, the selected proposer(s) shall provide the Treasurer access to all files, records, documents and data pertaining to Bright Start that are in its possession and control regardless of how that information is stored. The information shall be provided in a form acceptable to the Treasurer.

L. Covenants

Depending on the services provided, the selected proposer(s) may, at the Treasurer's discretion, be required to agree to the following covenants:

1. Compliance with Requirements of Applicable Law. Selected proposer(s) shall offer and sell interests in the College Savings Pool and shall otherwise provide the Services and perform its obligations under this Agreement in compliance with the requirements of all Applicable Law, including but not limited to the following:
(a) Selected proposer(s) shall not take any action what would jeopardize (i) the compliance of the College Savings Pool with the requirements of the Act; (ii) the treatment of the College Savings Pool as a “qualified State tuition program” under Section 529 of the Code; (iii) the exemption from registration under and compliance with the federal securities law of the Participation Agreements or the College Savings Pool; or (iv) the conclusions set forth in any opinion referenced herein.

(b) Selected proposer(s)’s offer and sale of interests in the College Savings Pool and performance of the Services under this Agreement shall be performed in compliance with all requirements of the NASD, the MSRB and any other Governmental Authority.

(c) The Bright Start Disclosure Statement shall have been prepared by selected proposer(s) with the reasonable assistance of the Treasurer’s Office as necessary in such form and substance as shall be mutually acceptable to the Treasurer’s Office and selected proposer(s). Selected proposer(s) shall have delivered to the Treasurer’s Office a Certificate, dated the Bright Start Program Start Date, executed on behalf of selected proposer(s), to the effect that all portions of the Disclosure Statement, other than those describing the Treasurer’s Office, do not contain any untrue statements of a material fact or fail to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Selected proposer(s) shall use the Disclosure Statement in connection with the offer and sale of interests in the College Savings Pool only so long as the Certificate delivered by selected proposer(s) to the Treasurer’s Office remains true and correct at the time of such offer and sale.

2. Changes in Applicable Law. Selected proposer(s) shall monitor all applicable Laws, and shall assume responsibility for addressing the legal issues affecting the College Savings Pool. Selected proposer(s) shall promptly notify the Treasurer’s Office of any changes in the law. In fulfilling its responsibilities hereunder, selected proposer(s) may obtain opinions of or the advice of counsel, including but not limited to, having counsel conduct an annual review of the College Savings Pool. In the event that the College Savings Pool or objectives of the College Savings Pool are adversely affected due to changes in or new interpretations of existing federal tax law, the State tax law, federal or State securities laws or other Applicable Laws, the Treasurer’s Office and selected proposer(s) shall cooperate to restructure the College Savings Pool, based on terms developed and presented by selected proposer(s), as advised by counsel, to the Treasurer’s Office for its approval, to address such adverse consequences, and each of the parties hereto shall pay its own expenses in connection with such efforts through the date of such restructuring.
3. **Further Cooperation.** Selected proposer(s) shall cooperate with the Treasurer’s Office in a commercially reasonable manner in order that the duties and obligations of the parties hereunder may be effectively, efficiently and promptly discharged. Selected proposer(s) shall at its expense, execute and deliver to the Treasurer’s Office further instruments and documents, and shall take further action, as the Treasurer’s Office may from time to time reasonably request in order to carry out the intent and purpose of this Agreement. To that end, selected proposer(s) shall, at all reasonable times during normal business hours and as reasonably necessary, make available for discussion with the Treasurer’s Office properly authorized personnel.

4. **Compliance with Terms of College Savings Pool.** Selected proposer(s) shall offer and sell interests in the College Savings Pool only in accordance with the terms developed and agreed to by the Treasurer’s Office and selected proposer(s) pursuant to this Agreement, as such terms may be changed from time to time during the Term of this Agreement only (i) upon mutual agreement of selected proposer(s) and the Treasurer’s Office, or (ii) by the Treasurer’s Office to maintain compliance of the College Savings Pool with Applicable Law.

5. **State Securities and “Blue Sky” Law Clearance.** To the extent permitted by Applicable Law, accounts may be offered to, opened by, and contributions thereto made by, prospective participants or participants in each state of the United States and outside the United States. At its sole cost and expense, selected proposer(s) shall be solely responsible for identifying all required consents, approvals, notifications and other filings to this end under applicable state securities or “blue sky” laws and otherwise. The Treasurer’s Office shall cooperate with selected proposer(s), as may be necessary, in its preparation and submission to all such consents, approvals, notifications and other filings.

6. **Tax Reports.** Selected proposer(s) shall be required to handle all tax reporting in accordance with Section 529 and the Act, including but not limited to the following:

   (a) reports, if there is any distribution from the College Savings Pool to any individual for the benefit of any individual during a calendar year, to the Internal Revenue Service and the Participant, the Designated Beneficiary and such other Person to the extent request by federal law or regulation; and

   (b) prepare and provide to the Treasurer’s Office for filing statements and information relating to the College Savings Pool and the Accounts to the extent required by federal and state tax law.

7. **Financial and Other Audits.** Selected proposer(s) shall prepare separate annual financial statements for the College Savings Pool and to cause such
statements to be audited at its expense by an independent certified public accountant or firm of such accountants duly licensed to practice and practicing as such under the laws of the State. The Treasurer’s Office and the Illinois Auditor General shall be entitled to conduct other audits with respect to the College Savings Pool from time to time or as required by Illinois law. Selected proposer(s) shall give to the Persons performing the audit its full cooperation and access to all Bright Start Records.

8. Amendments to Program Disclosure Statement. Selected proposer(s) shall amend or supplement the Disclosure Statement to take into account material developments subsequent to the preparation and delivery of the initial Disclosure Statement. The Treasurer’s Office and selected proposer(s) shall cooperate in the determination of whether a particular development warrants an amendment or supplement to the Disclosure Statement. On each date that the Disclosure Statement is amended or supplemented, the Treasurer’s Office and selected proposer(s) shall confirm in writing that the representations and statements contained in the certificate delivered by selected proposer(s) and the Treasurer’s Office remain true and correct as of such date.

9. Keeping of Records and Books of Account. Selected proposer(s) shall keep adequate records and books of account, in which complete entries shall be made in accordance with accounting principles, reflecting all transactions of selected proposer(s) in connection with the College Savings Pool.

10. Continuing Representations, Warranties and Covenants. Each of the representations, warranties, and covenants made by selected proposer(s) in this Agreement is true and correct as of the date hereof and shall be true and correct on and as of the Bright Start Transition Date and at all times thereafter through the termination or expiration of this Agreement.
APPENDIX A

Public Act 91-0607

SB1014 Enrolled                                      LRB9105628DHmg

AN ACT concerning the State Treasurer.

Be it enacted by the People of the State of Illinois, represented in the General Assembly:

Section 5. The State Treasurer Act is amended by adding Section 16.5 as follows:

(15 ILCS 505/16.5 new)
Sec. 16.5. College Savings Pool. The State Treasurer may establish and administer a College Savings Pool to supplement and enhance the investment opportunities otherwise available to persons seeking to finance the costs of higher education. The Treasurer, in administering the College Savings Pool, may receive moneys paid into the pool by a participant and may serve as the fiscal agent of that participant for the purpose of holding and investing those moneys.

"Participant", as used in this Section, means any person that makes investments in the pool. "Designated beneficiary", as used in this Section, means any person on whose behalf an account is established in the College Savings Pool by a participant. Both in-state and out-of-state persons may be participants and designated beneficiaries in the College Savings Pool.

New accounts in the College Savings Pool shall be processed through participating financial institutions. "Participating financial institution", as used in this Section, means any financial institution insured by the Federal Deposit Insurance Corporation and lawfully doing business in the State of Illinois and any credit union approved by the State Treasurer and lawfully doing business in the State of Illinois that agrees to process new accounts in the College Savings Pool. Participating financial institutions may charge a processing fee to participants to open an account in the pool that shall not exceed $30 until the year 2001. Beginning in 2001 and every year thereafter, the maximum fee limit shall be adjusted by the Treasurer based on the Consumer Price Index for the North Central Region as published by the United States Department of Labor, Bureau of Labor Statistics for the immediately preceding calendar year. Every contribution received by a financial institution for investment in the College Savings Pool shall be transferred from the financial institution to a location selected by the State Treasurer within one business day following the day that the funds must be made available in accordance with federal law. All communications from the State Treasurer to participants shall reference the participating financial institution at which the account was processed.

The Treasurer may invest the moneys in the College
Savings Pool in the same manner, in the same types of investments, and subject to the same limitations provided for the investment of moneys by the Illinois State Board of Investment. To enhance the safety and liquidity of the College Savings Pool, to ensure the diversification of the investment portfolio of the pool, and in an effort to keep investment dollars in the State of Illinois, the State Treasurer shall make a percentage of each account available for investment in participating financial institutions doing business in the State. The State Treasurer shall deposit with the participating financial institution at which the account was processed the following percentage of each account at a prevailing rate offered by the institution, provided that the deposit is federally insured or fully collateralized and the institution accepts the deposit: 10% of the total amount of each account for which the current age of the beneficiary is less than 7 years of age, 20% of the total amount of each account for which the beneficiary is at least 7 years of age and less than 12 years of age, and 50% of the total amount of each account for which the current age of the beneficiary is at least 12 years of age. The State Treasurer shall adjust each account at least annually to ensure compliance with this Section. The Treasurer shall develop, publish, and implement an investment policy covering the investment of the moneys in the College Savings Pool. The policy shall be published (i) at least once each year in at least one newspaper of general circulation in both Springfield and Chicago and (ii) each year as part of the audit of the College Savings Pool by the Auditor General, which shall be distributed to all participants. The Treasurer shall notify all participants in writing, and the Treasurer shall publish in a newspaper of general circulation in both Chicago and Springfield, any changes to the previously published investment policy at least 30 calendar days before implementing the policy. Any investment policy adopted by the Treasurer shall be reviewed and updated if necessary within 90 days following the date that the State Treasurer takes office.

Participants shall be required to use moneys distributed from the College Savings Pool for qualified expenses at eligible educational institutions. "Qualified expenses", as used in this Section, means the following: (i) tuition, fees, and the costs of books, supplies, and equipment required for enrollment or attendance at an eligible educational institution and (ii) certain room and board expenses incurred while attending an eligible educational institution at least half-time. "Eligible educational institutions", as used in this Section, means public and private colleges, junior colleges, graduate schools, and certain vocational institutions that are described in Section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088) and that are eligible to participate in Department of Education student aid programs. A student shall be considered to be enrolled at least half the full-time academic work load for the course of study the student is pursuing as determined under the standards of the institution at which the student is enrolled. Distributions
made from the pool for qualified expenses shall be made directly to the eligible educational institution, directly to a vendor, or in the form of a check payable to both the beneficiary and the institution or vendor. Any moneys that are distributed in any other manner or that are used for expenses other than qualified expenses at an eligible educational institution shall be subject to a penalty of 10% of the earnings unless the beneficiary dies, becomes disabled, or receives a scholarship that equals or exceeds the distribution. Penalties shall be withheld at the time the distribution is made.

The Treasurer shall limit the contributions that may be made on behalf of a designated beneficiary based on an actuarial estimate of what is required to pay tuition, fees, and room and board for 5 undergraduate years at the highest cost eligible educational institution. The contributions made on behalf of a beneficiary who is also a beneficiary under the Illinois Prepaid Tuition Program shall be further restricted to ensure that the contributions in both programs combined do not exceed the limit established for the College Savings Pool. The Treasurer shall provide the Illinois Student Assistance Commission each year at a time designated by the Commission, an electronic report of all participant accounts in the Treasurer's College Savings Pool, listing total contributions and disbursements from each individual account during the previous calendar year. As soon thereafter as is possible following receipt of the Treasurer's report, the Illinois Student Assistance Commission shall, in turn, provide the Treasurer with an electronic report listing those College Savings Pool participants who also participate in the State's prepaid tuition program, administered by the Commission. The Commission shall be responsible for filing any combined tax reports regarding State qualified savings programs required by the United States Internal Revenue Service. The Treasurer shall work with the Illinois Student Assistance Commission to coordinate the marketing of the College Savings Pool and the Illinois Prepaid Tuition Program when considered beneficial by the Treasurer and the Director of the Illinois Student Assistance Commission. The Treasurer's office shall not publicize or otherwise market the College Savings Pool or accept any moneys into the College Savings Pool prior to March 1, 2000. The Treasurer shall provide a separate accounting for each designated beneficiary to each participant, the Illinois Student Assistance Commission, and the participating financial institution at which the account was processed. No interest in the program may be pledged as security for a loan.

The Treasurer shall adopt rules he or she considers necessary for the efficient administration of the College Savings Pool. The rules shall provide whatever additional parameters and restrictions are necessary to ensure that the College Savings Pool meets all of the requirements for a qualified state tuition program under Section 529 of the Internal Revenue Code (26 U.S.C. 52). The rules shall provide for the administration expenses of the pool to be paid from its earnings and for the investment earnings in excess of the
expenses and all moneys collected as penalties to be credited or paid monthly to the several participants in the pool in a manner which equitably reflects the differing amounts of their respective investments in the pool and the differing periods of time for which those amounts were in the custody of the pool. Also, the rules shall require the maintenance of records that enable the Treasurer's office to produce a report for each account in the pool at least annually that documents the account balance and investment earnings. Notice of any proposed amendments to the rules and regulations shall be provided to all participants prior to adoption. Amendments to rules and regulations shall apply only to contributions made after the adoption of the amendment.

Upon creating the College Savings Pool, the State Treasurer shall give bond with 2 or more sufficient sureties, payable to and for the benefit of the participants in the College Savings Pool, in the penal sum of $1,000,000, conditioned upon the faithful discharge of his or her duties in relation to the College Savings Pool.
AN ACT to amend the State Treasurer Act by changing Section 16.5.

Be it enacted by the People of the State of Illinois, represented in the General Assembly:

Section 5. The State Treasurer Act is amended by changing Section 16.5 as follows:

(15 ILCS 505/16.5)

Sec. 16.5. College Savings Pool. The State Treasurer may establish and administer a College Savings Pool to supplement and enhance the investment opportunities otherwise available to persons seeking to finance the costs of higher education. The State Treasurer, in administering the College Savings Pool, may receive moneys paid into the pool by a participant and may serve as the fiscal agent of that participant for the purpose of holding and investing those moneys.

"Participant", as used in this Section, means any person that makes investments in the pool. "Designated beneficiary", as used in this Section, means any person on whose behalf an account is established in the College Savings Pool by a participant. Both in-state and out-of-state persons may be participants and designated beneficiaries in the College Savings Pool.

New accounts in the College Savings Pool shall be processed through participating financial institutions. "Participating financial institution", as used in this Section, means any financial institution insured by the Federal Deposit Insurance Corporation and lawfully doing business in the State of Illinois and any credit union approved by the State Treasurer and lawfully doing business in the State of Illinois that agrees to process new accounts in the College Savings Pool. Participating financial institutions may charge a processing fee to participants to open an account in the pool that shall not exceed $30 until the year 2001. Beginning in 2001 and every year thereafter, the maximum fee limit shall be adjusted by the Treasurer based on the Consumer Price Index for the North Central Region as published by the United States Department of Labor, Bureau of Labor Statistics for the immediately preceding calendar year. Every contribution received by a financial institution for investment in the College Savings Pool shall be transferred from the financial institution to a location selected by the State Treasurer within one business day following the day that the funds must be made available in accordance with federal law. All communications from the State Treasurer to participants shall reference the participating financial institution at which the account was processed.

The Treasurer may invest the moneys in the College Savings Pool in the same manner, in the same types of
investments, and subject to the same limitations provided for the investment of moneys by the Illinois State Board of Investment. To enhance the safety and liquidity of the College Savings Pool, to ensure the diversification of the investment portfolio of the pool, and in an effort to keep investment dollars in the State of Illinois, the State Treasurer shall make a percentage of each account available for investment in participating financial institutions doing business in the State. The State Treasurer shall deposit with the participating financial institution at which the account was processed the following percentage of each account at a prevailing rate offered by the institution, provided that the deposit is federally insured or fully collateralized and the institution accepts the deposit: 10% of the total amount of each account for which the current age of the beneficiary is less than 7 years of age, 20% of the total amount of each account for which the beneficiary is at least 7 years of age and less than 12 years of age, and 50% of the total amount of each account for which the current age of the beneficiary is at least 12 years of age. The State Treasurer shall adjust each account at least annually to ensure compliance with this Section. The Treasurer shall develop, publish, and implement an investment policy covering the investment of the moneys in the College Savings Pool. The policy shall be published (i) at least once each year in at least one newspaper of general circulation in both Springfield and Chicago and (ii) each year as part of the audit of the College Savings Pool by the Auditor General, which shall be distributed to all participants. The Treasurer shall notify all participants in writing, and the Treasurer shall publish in a newspaper of general circulation in both Chicago and Springfield, any changes to the previously published investment policy at least 30 calendar days before implementing the policy. Any investment policy adopted by the Treasurer shall be reviewed and updated if necessary within 90 days following the date that the State Treasurer takes office.

Participants shall be required to use moneys distributed from the College Savings Pool for qualified expenses at eligible educational institutions. "Qualified expenses", as used in this Section, means the following: (i) tuition, fees, and the costs of books, supplies, and equipment required for enrollment or attendance at an eligible educational institution and (ii) certain room and board expenses incurred while attending an eligible educational institution at least half-time. "Eligible educational institutions", as used in this Section, means public and private colleges, junior colleges, graduate schools, and certain vocational institutions that are described in Section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088) and that are eligible to participate in Department of Education student aid programs. A student shall be considered to be enrolled at least half-time if the student is enrolled for at least half the full-time academic work load for the course of study the student is pursuing as determined under the standards of the institution at which the student is enrolled. Distributions made from the pool for qualified expenses shall be made
directly to the eligible educational institution, directly to a vendor, or in the form of a check payable to both the beneficiary and the institution or vendor. Any moneys that are distributed in any other manner or that are used for expenses other than qualified expenses at an eligible educational institution shall be subject to a penalty of 10% of the earnings unless the beneficiary dies, becomes disabled, or receives a scholarship that equals or exceeds the distribution. Penalties shall be withheld at the time the distribution is made.

The Treasurer shall limit the contributions that may be made on behalf of a designated beneficiary based on an actuarial estimate of what is required to pay tuition, fees, and room and board for 5 undergraduate years at the highest cost eligible educational institution. The contributions made on behalf of a beneficiary who is also a beneficiary under the Illinois Prepaid Tuition Program shall be further restricted to ensure that the contributions in both programs combined do not exceed the limit established for the College Savings Pool. The Treasurer shall provide the Illinois Student Assistance Commission each year at a time designated by the Commission, an electronic report of all participant accounts in the Treasurer's College Savings Pool, listing total contributions and disbursements from each individual account during the previous calendar year. As soon thereafter as is possible following receipt of the Treasurer's report, the Illinois Student Assistance Commission shall, in turn, provide the Treasurer with an electronic report listing those College Savings Pool participants who also participate in the State's prepaid tuition program, administered by the Commission. The Commission shall be responsible for filing any combined tax reports regarding State qualified savings programs required by the United States Internal Revenue Service. The Treasurer shall work with the Illinois Student Assistance Commission to coordinate the marketing of the College Savings Pool and the Illinois Prepaid Tuition Program when considered beneficial by the Treasurer and the Director of the Illinois Student Assistance Commission. The Treasurer's office shall not publicize or otherwise market the College Savings Pool or accept any moneys into the College Savings Pool prior to March 1, 2000. The Treasurer shall provide a separate accounting for each designated beneficiary to each participant, the Illinois Student Assistance Commission, and the participating financial institution at which the account was processed. No interest in the program may be pledged as security for a loan.

The assets of the College Savings Pool and its income and operation shall be exempt from all taxation by the State of Illinois and any of its subdivisions. The accrued earnings on investments in the Pool once disbursed on behalf of a designated beneficiary shall be similarly exempt from all taxation by the State of Illinois and its subdivisions, so long as they are used for qualified expenses. The provisions of this paragraph are exempt from Section 250 of the Illinois Income Tax Act.

The Treasurer shall adopt rules he or she considers
necessary for the efficient administration of the College Savings Pool. The rules shall provide whatever additional parameters and restrictions are necessary to ensure that the College Savings Pool meets all of the requirements for a qualified state tuition program under Section 529 of the Internal Revenue Code (26 U.S.C. 52). The rules shall provide for the administration expenses of the pool to be paid from its earnings and for the investment earnings in excess of the expenses and all moneys collected as penalties to be credited or paid monthly to the several participants in the pool in a manner which equitably reflects the differing amounts of their respective investments in the pool and the differing periods of time for which those amounts were in the custody of the pool. Also, the rules shall require the maintenance of records that enable the Treasurer's office to produce a report for each account in the pool at least annually that documents the account balance and investment earnings. Notice of any proposed amendments to the rules and regulations shall be provided to all participants prior to adoption. Amendments to rules and regulations shall apply only to contributions made after the adoption of the amendment.

Upon creating the College Savings Pool, the State Treasurer shall give bond with 2 or more sufficient sureties, payable to and for the benefit of the participants in the College Savings Pool, in the penal sum of $1,000,000, conditioned upon the faithful discharge of his or her duties in relation to the College Savings Pool.

(Source: P.A. 91-607, eff. 1-1-00.)
AN ACT concerning finance.

Be it enacted by the People of the State of Illinois, represented in the General Assembly:

Section 5. The State Treasurer Act is amended by changing Section 16.5 as follows:

(15 ILCS 505/16.5)
Sec. 16.5. College Savings Pool. The State Treasurer may establish and administer a College Savings Pool to supplement and enhance the investment opportunities otherwise available to persons seeking to finance the costs of higher education. The State Treasurer, in administering the College Savings Pool, may receive moneys paid into the pool by a participant and may serve as the fiscal agent of that participant for the purpose of holding and investing those moneys.

"Participant", as used in this Section, means any person who makes investments in the pool. "Designated beneficiary", as used in this Section, means any person on whose behalf an account is established in the College Savings Pool by a participant. Both in-state and out-of-state persons may be participants and designated beneficiaries in the College Savings Pool.

New accounts in the College Savings Pool shall be processed through participating financial institutions. "Participating financial institution", as used in this Section, means any financial institution insured by the Federal Deposit Insurance Corporation and lawfully doing business in the State of Illinois and any credit union approved by the State Treasurer and lawfully doing business in the State of Illinois that agrees to process new accounts in the College Savings Pool. Participating financial institutions may charge a processing fee to participants to open an account in the pool that shall not exceed $30 until the year 2001. Beginning in 2001 and every year thereafter, the maximum fee limit shall be adjusted by the Treasurer based on the Consumer Price Index for the North Central Region as published by the United States Department of Labor, Bureau of Labor Statistics for the immediately preceding calendar year. Every contribution received by a financial institution for investment in the College Savings Pool shall be transferred from the financial institution to a location selected by the State Treasurer within one business day following the day that the funds must be made available in accordance with federal law. All communications from the State Treasurer to participants shall reference the participating financial institution at which the account was processed.

The Treasurer may invest the moneys in the College Savings Pool in the same manner, in the same types of investments, and subject to the same limitations provided for
the investment of moneys by the Illinois State Board of Investment. To enhance the safety and liquidity of the College Savings Pool, to ensure the diversification of the investment portfolio of the pool, and in an effort to keep investment dollars in the State of Illinois, the State Treasurer shall make a percentage of each account available for investment in participating financial institutions doing business in the State. The State Treasurer shall deposit with the participating financial institution at which the account was processed the following percentage of each account at a prevailing rate offered by the institution, provided that the deposit is federally insured or fully collateralized and the institution accepts the deposit: 10% of the total amount of each account for which the current age of the beneficiary is less than 7 years of age, 20% of the total amount of each account for which the beneficiary is at least 7 years of age and less than 12 years of age, and 50% of the total amount of each account for which the current age of the beneficiary is at least 12 years of age. The State Treasurer shall adjust each account at least annually to ensure compliance with this Section. The Treasurer shall develop, publish, and implement an investment policy covering the investment of the moneys in the College Savings Pool. The policy shall be published (i) at least once each year in at least one newspaper of general circulation in both Springfield and Chicago and (ii) each year as part of the audit of the College Savings Pool by the Auditor General, which shall be distributed to all participants. The Treasurer shall notify all participants in writing, and the Treasurer shall publish in a newspaper of general circulation in both Chicago and Springfield, any changes to the previously published investment policy at least 30 calendar days before implementing the policy. Any investment policy adopted by the Treasurer shall be reviewed and updated if necessary within 90 days following the date that the State Treasurer takes office.

Participants shall be required to use moneys distributed from the College Savings Pool for qualified expenses at eligible educational institutions. "Qualified expenses", as used in this Section, means the following: (i) tuition, fees, and the costs of books, supplies, and equipment required for enrollment or attendance at an eligible educational institution and (ii) certain room and board expenses incurred while attending an eligible educational institution at least half-time. "Eligible educational institutions", as used in this Section, means public and private colleges, junior colleges, graduate schools, and certain vocational institutions that are described in Section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088) and that are eligible to participate in Department of Education student aid programs. A student shall be considered to be enrolled at least half-time if the student is enrolled for at least half the full-time academic work load for the course of study the student is pursuing as determined under the standards of the institution at which the student is enrolled. Distributions made from the pool for qualified expenses shall be made directly to the eligible educational institution, directly to
a vendor, or in the form of a check payable to both the beneficiary and the institution or vendor. Any moneys that are distributed in any other manner or that are used for expenses other than qualified expenses at an eligible educational institution shall be subject to a penalty of 10% of the earnings unless the beneficiary dies, becomes disabled, or receives a scholarship that equals or exceeds the distribution. Penalties shall be withheld at the time the distribution is made.

The Treasurer shall limit the contributions that may be made on behalf of a designated beneficiary based on an actuarial estimate of what is required to pay tuition, fees, and room and board for 5 undergraduate years at the highest cost eligible educational institution. The contributions made on behalf of a beneficiary who is also a beneficiary under the Illinois Prepaid Tuition Program shall be further restricted to ensure that the contributions in both programs combined do not exceed the limit established for the College Savings Pool. The Treasurer shall provide the Illinois Student Assistance Commission each year at a time designated by the Commission, an electronic report of all participant accounts in the Treasurer's College Savings Pool, listing total contributions and disbursements from each individual account during the previous calendar year. As soon thereafter as is possible following receipt of the Treasurer's report, the Illinois Student Assistance Commission shall, in turn, provide the Treasurer with an electronic report listing those College Savings Pool participants who also participate in the State's prepaid tuition program, administered by the Commission. The Commission shall be responsible for filing any combined tax reports regarding State qualified savings programs required by the United States Internal Revenue Service. The Treasurer shall work with the Illinois Student Assistance Commission to coordinate the marketing of the College Savings Pool and the Illinois Prepaid Tuition Program when considered beneficial by the Treasurer and the Director of the Illinois Student Assistance Commission. The Treasurer's office shall not publicize or otherwise market the College Savings Pool or accept any moneys into the College Savings Pool prior to March 1, 2000. The Treasurer shall provide a separate accounting for each designated beneficiary to each participant, the Illinois Student Assistance Commission, and the participating financial institution at which the account was processed. No interest in the program may be pledged as security for a loan.

The assets of the College Savings Pool and its income and operation shall be exempt from all taxation by the State of Illinois and any of its subdivisions. The accrued earnings on investments in the Pool once disbursed on behalf of a designated beneficiary shall be similarly exempt from all taxation by the State of Illinois and its subdivisions, so long as they are used for qualified expenses. Contributions to a College Savings Pool account during the taxable year may be deducted from adjusted gross income as provided in Section 203 of the Illinois Income Tax Act. The provisions of this paragraph are exempt from Section 250 of the Illinois Income
Tax Act.

The Treasurer shall adopt rules he or she considers necessary for the efficient administration of the College Savings Pool. The rules shall provide whatever additional parameters and restrictions are necessary to ensure that the College Savings Pool meets all of the requirements for a qualified state tuition program under Section 529 of the Internal Revenue Code (26 U.S.C. §529). The rules shall provide for the administration expenses of the pool to be paid from its earnings and for the investment earnings in excess of the expenses and all moneys collected as penalties to be credited or paid monthly to the several participants in the pool in a manner which equitably reflects the differing amounts of their respective investments in the pool and the differing periods of time for which those amounts were in the custody of the pool. Also, the rules shall require the maintenance of records that enable the Treasurer's office to produce a report for each account in the pool at least annually that documents the account balance and investment earnings. Notice of any proposed amendments to the rules and regulations shall be provided to all participants prior to adoption. Amendments to rules and regulations shall apply only to contributions made after the adoption of the amendment.

Upon creating the College Savings Pool, the State Treasurer shall give bond with 2 or more sufficient sureties, payable to and for the benefit of the participants in the College Savings Pool, in the penal sum of $1,000,000, conditioned upon the faithful discharge of his or her duties in relation to the College Savings Pool.
(Source: P.A. 91-607, eff. 1-1-00; 91-829, eff. 1-1-01; revised 7-3-00.)

Section 10. The Illinois Income Tax Act is amended by changing Section 203 as follows:

(35 ILCS 5/203) (from Ch. 120, par. 2-203)
Sec. 203. Base income defined.
(a) Individuals.
   (1) In general. In the case of an individual, base income means an amount equal to the taxpayer's adjusted gross income for the taxable year as modified by paragraph (2).
   (2) Modifications. The adjusted gross income referred to in paragraph (1) shall be modified by adding thereto the sum of the following amounts:
      (A) An amount equal to all amounts paid or accrued to the taxpayer as interest or dividends during the taxable year to the extent excluded from gross income in the computation of adjusted gross income, except stock dividends of qualified public utilities described in Section 305(e) of the Internal Revenue Code;
      (B) An amount equal to the amount of tax imposed by this Act to the extent deducted from gross income in the computation of adjusted gross income for the taxable year;
(C) An amount equal to the amount received during the taxable year as a recovery or refund of real property taxes paid with respect to the taxpayer's principal residence under the Revenue Act of 1939 and for which a deduction was previously taken under subparagraph (L) of this paragraph (2) prior to July 1, 1991, the retrospective application date of Article 4 of Public Act 87-17. In the case of multi-unit or multi-use structures and farm dwellings, the taxes on the taxpayer's principal residence shall be that portion of the total taxes for the entire property which is attributable to such principal residence;

(D) An amount equal to the amount of the capital gain deduction allowable under the Internal Revenue Code, to the extent deducted from gross income in the computation of adjusted gross income;

(D-5) An amount, to the extent not included in adjusted gross income, equal to the amount of money withdrawn by the taxpayer in the taxable year from a medical care savings account and the interest earned on the account in the taxable year of a withdrawal pursuant to subsection (b) of Section 20 of the Medical Care Savings Account Act or subsection (b) of Section 20 of the Medical Care Savings Account Act of 2000; and

(D-10) For taxable years ending after December 31, 1997, an amount equal to any eligible remediation costs that the individual deducted in computing adjusted gross income and for which the individual claims a credit under subsection (l) of Section 201;

and by deducting from the total so obtained the sum of the following amounts:

(E) Any amount included in such total in respect of any compensation (including but not limited to any compensation paid or accrued to a serviceman while a prisoner of war or missing in action) paid to a resident by reason of being on active duty in the Armed Forces of the United States and in respect of any compensation paid or accrued to a resident who as a governmental employee was a prisoner of war or missing in action, and in respect of any compensation paid to a resident in 1971 or thereafter for annual training performed pursuant to Sections 502 and 503, Title 32, United States Code as a member of the Illinois National Guard;

(F) An amount equal to all amounts included in such total pursuant to the provisions of Sections 402(a), 402(c), 403(a), 403(b), 406(a), 407(a), and 408 of the Internal Revenue Code, or included in such total as distributions under the provisions of any retirement or disability plan for employees of any governmental agency or unit, or retirement payments to retired partners, which payments are excluded in computing net earnings from self employment by Section 1402 of the Internal Revenue
Code and regulations adopted pursuant thereto;

(G) The valuation limitation amount;

(H) An amount equal to the amount of any tax imposed by this Act which was refunded to the taxpayer and included in such total for the taxable year;

(I) An amount equal to all amounts included in such total pursuant to the provisions of Section 111 of the Internal Revenue Code as a recovery of items previously deducted from adjusted gross income in the computation of taxable income;

(J) An amount equal to those dividends included in such total which were paid by a corporation which conducts business operations in an Enterprise Zone or zones created under the Illinois Enterprise Zone Act, and conducts substantially all of its operations in an Enterprise Zone or zones;

(K) An amount equal to those dividends included in such total that were paid by a corporation that conducts business operations in a federally designated Foreign Trade Zone or Sub-Zone and that is designated a High Impact Business located in Illinois; provided that dividends eligible for the deduction provided in subparagraph (J) of paragraph (2) of this subsection shall not be eligible for the deduction provided under this subparagraph (K);

(L) For taxable years ending after December 31, 1983, an amount equal to all social security benefits and railroad retirement benefits included in such total pursuant to Sections 72(r) and 86 of the Internal Revenue Code;

(M) With the exception of any amounts subtracted under subparagraph (N), an amount equal to the sum of all amounts disallowed as deductions by (i) Sections 171(a) (2), and 265(2) of the Internal Revenue Code of 1954, as now or hereafter amended, and all amounts of expenses allocable to interest and disallowed as deductions by Section 265(1) of the Internal Revenue Code of 1954, as now or hereafter amended; and (ii) for taxable years ending on or after August 13, 1999, Sections 171(a)(2), 265, 280C, and 832(b)(5)(B)(i) of the Internal Revenue Code; the provisions of this subparagraph are exempt from the provisions of Section 250;

(N) An amount equal to all amounts included in such total which are exempt from taxation by this State either by reason of its statutes or Constitution or by reason of the Constitution, treaties or statutes of the United States; provided that, in the case of any statute of this State that exempts income derived from bonds or other obligations from the tax imposed under this Act, the amount exempted shall be the interest net of bond premium amortization;

(O) An amount equal to any contribution made
to a job training project established pursuant to
the Tax Increment Allocation Redevelopment Act;

(P) An amount equal to the amount of the
deduction used to compute the federal income tax
credit for restoration of substantial amounts held
under claim of right for the taxable year pursuant
to Section 1341 of the Internal Revenue Code of
1986;

(Q) An amount equal to any amounts included in
such total, received by the taxpayer as an
acceleration in the payment of life, endowment or
annuity benefits in advance of the time they would
otherwise be payable as an indemnity for a terminal
illness;

(R) An amount equal to the amount of any
federal or State bonus paid to veterans of the
Persian Gulf War;

(S) An amount, to the extent included in
adjusted gross income, equal to the amount of a
contribution made in the taxable year on behalf of
the taxpayer to a medical care savings account
established under the Medical Care Savings Account
Act or the Medical Care Savings Account Act of 2000
to the extent the contribution is accepted by the
account administrator as provided in that Act;

(T) An amount, to the extent included in
adjusted gross income, equal to the amount of
interest earned in the taxable year on a medical
care savings account established under the Medical
Care Savings Account Act or the Medical Care Savings
Account Act of 2000 on behalf of the taxpayer, other
than interest added pursuant to item (D-5) of this
paragraph (2);

(U) For one taxable year beginning on or after
January 1, 1994, an amount equal to the total amount
of tax imposed and paid under subsections (a) and
(b) of Section 201 of this Act on grant amounts
received by the taxpayer under the Nursing Home
Grant Assistance Act during the taxpayer's taxable
years 1992 and 1993;

(V) Beginning with tax years ending on or
after December 31, 1995 and ending with tax years
ending on or before December 31, 2004, an amount
equal to the amount paid by a taxpayer who is a
self-employed taxpayer, a partner of a partnership,
or a shareholder in a Subchapter S corporation for
health insurance or long-term care insurance for
that taxpayer or that taxpayer's spouse or
dependents, to the extent that the amount paid for
that health insurance or long-term care insurance
may be deducted under Section 213 of the Internal
Revenue Code of 1986, has not been deducted on the
federal income tax return of the taxpayer, and does
not exceed the taxable income attributable to that
taxpayer's income, self-employment income, or
Subchapter S corporation income; except that no
deduction shall be allowed under this item (V) if
the taxpayer is eligible to participate in any health insurance or long-term care insurance plan of an employer of the taxpayer or the taxpayer's spouse. The amount of the health insurance and long-term care insurance subtracted under this item (V) shall be determined by multiplying total health insurance and long-term care insurance premiums paid by the taxpayer times a number that represents the fractional percentage of eligible medical expenses under Section 213 of the Internal Revenue Code of 1986 not actually deducted on the taxpayer's federal income tax return;

(W) For taxable years beginning on or after January 1, 1998, all amounts included in the taxpayer's federal gross income in the taxable year from amounts converted from a regular IRA to a Roth IRA. This paragraph is exempt from the provisions of Section 250; and

(X) For taxable year 1999 and thereafter, an amount equal to the amount of any (i) distributions, to the extent includible in gross income for federal income tax purposes, made to the taxpayer because of his or her status as a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime or as an heir of the victim and (ii) items of income, to the extent includible in gross income for federal income tax purposes, attributable to, derived from or in any way related to assets stolen from, hidden from, or otherwise lost to a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime immediately prior to, during, and immediately after World War II, including, but not limited to, interest on the proceeds receivable as insurance under policies issued to a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime by European insurance companies immediately prior to and during World War II; provided, however, this subtraction from federal adjusted gross income does not apply to assets acquired with such assets or with the proceeds from the sale of such assets; provided, further, this paragraph shall only apply to a taxpayer who was the first recipient of such assets after their recovery and who is a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime or as an heir of the victim. The amount of and eligibility for any public assistance, benefit, or similar entitlement is not affected by the inclusion of items (i) and (ii) of this paragraph in gross income for federal income tax purposes. This paragraph is exempt from the provisions of Section 250; and

(Y) For taxable years beginning on or after January 1, 2002, moneys contributed in the taxable year to a College Savings Pool account under Section 16.5 of the State Treasurer Act. This subparagraph
(Y) is exempt from the provisions of Section 250.

(b) Corporations.

(1) In general. In the case of a corporation, base income means an amount equal to the taxpayer's taxable income for the taxable year as modified by paragraph (2).

(2) Modifications. The taxable income referred to in paragraph (1) shall be modified by adding thereto the sum of the following amounts:

(A) An amount equal to all amounts paid or accrued to the taxpayer as interest and all distributions received from regulated investment companies during the taxable year to the extent excluded from gross income in the computation of taxable income;

(B) An amount equal to the amount of tax imposed by this Act to the extent deducted from gross income in the computation of taxable income for the taxable year;

(C) In the case of a regulated investment company, an amount equal to the excess of (i) the net long-term capital gain for the taxable year, over (ii) the amount of the capital gain dividends designated as such in accordance with Section 852(b)(3)(C) of the Internal Revenue Code and any amount designated under Section 852(b)(3)(D) of the Internal Revenue Code, attributable to the taxable year (this amendatory Act of 1995 (Public Act 89-89) is declarative of existing law and is not a new enactment);

(D) The amount of any net operating loss deduction taken in arriving at taxable income, other than a net operating loss carried forward from a taxable year ending prior to December 31, 1986;

(E) For taxable years in which a net operating loss carryback or carryforward from a taxable year ending prior to December 31, 1986 is an element of taxable income under paragraph (1) of subsection (e) or subparagraph (E) of paragraph (2) of subsection (e), the amount by which addition modifications other than those provided by this subparagraph (E) exceeded subtraction modifications in such earlier taxable year, with the following limitations applied in the order that they are listed:

(i) the addition modification relating to the net operating loss carried back or forward to the taxable year from any taxable year ending prior to December 31, 1986 shall be reduced by the amount of addition modification under this subparagraph (E) which related to that net operating loss and which was taken into account in calculating the base income of an earlier taxable year, and

(ii) the addition modification relating to the net operating loss carried back or forward to the taxable year from any taxable year ending prior to December 31, 1986 shall
not exceed the amount of such carryback or carryforward;

For taxable years in which there is a net operating loss carryback or carryforward from more than one other taxable year ending prior to December 31, 1986, the addition modification provided in this subparagraph (E) shall be the sum of the amounts computed independently under the preceding provisions of this subparagraph (E) for each such taxable year; and

(E-5) For taxable years ending after December 31, 1997, an amount equal to any eligible remediation costs that the corporation deducted in computing adjusted gross income and for which the corporation claims a credit under subsection (l) of Section 201;

and by deducting from the total so obtained the sum of the following amounts:

(F) An amount equal to the amount of any tax imposed by this Act which was refunded to the taxpayer and included in such total for the taxable year;

(G) An amount equal to any amount included in such total under Section 78 of the Internal Revenue Code;

(H) In the case of a regulated investment company, an amount equal to the amount of exempt interest dividends as defined in subsection (b) (5) of Section 852 of the Internal Revenue Code, paid to shareholders for the taxable year;

(I) With the exception of any amounts subtracted under subparagraph (J), an amount equal to the sum of all amounts disallowed as deductions by (i) Sections 171(a) (2), and 265(a)(2) and amounts disallowed as interest expense by Section 291(a)(3) of the Internal Revenue Code, as now or hereafter amended, and all amounts of expenses allocable to interest and disallowed as deductions by Section 265(a)(1) of the Internal Revenue Code, as now or hereafter amended; and (ii) for taxable years ending on or after August 13, 1999, Sections 171(a)(2), 265, 280C, 291(a)(3), and 832(b)(5)(B)(i) of the Internal Revenue Code; the provisions of this subparagraph are exempt from the provisions of Section 250;

(J) An amount equal to all amounts included in such total which are exempt from taxation by this State either by reason of its statutes or Constitution or by reason of the Constitution, treaties or statutes of the United States; provided that, in the case of any statute of this State that exempts income derived from bonds or other obligations from the tax imposed under this Act, the amount exempted shall be the interest net of bond premium amortization;

(K) An amount equal to those dividends included in such total which were paid by a
corporation which conducts business operations in an Enterprise Zone or zones created under the Illinois Enterprise Zone Act and conducts substantially all of its operations in an Enterprise Zone or zones;

(L) An amount equal to those dividends included in such total that were paid by a corporation that conducts business operations in a federally designated Foreign Trade Zone or Sub-Zone and that is designated a High Impact Business located in Illinois; provided that dividends eligible for the deduction provided in subparagraph (K) of paragraph 2 of this subsection shall not be eligible for the deduction provided under this subparagraph (L);

(M) For any taxpayer that is a financial organization within the meaning of Section 304(c) of this Act, an amount included in such total as interest income from a loan or loans made by such taxpayer to a borrower, to the extent that such a loan is secured by property which is eligible for the Enterprise Zone Investment Credit. To determine the portion of a loan or loans that is secured by property eligible for a Section 201(f) investment credit to the borrower, the entire principal amount of the loan or loans between the taxpayer and the borrower should be divided into the basis of the Section 201(f) investment credit property which secures the loan or loans, using for this purpose the original basis of such property on the date that it was placed in service in the Enterprise Zone. The subtraction modification available to taxpayer in any year under this subsection shall be that portion of the total interest paid by the borrower with respect to such loan attributable to the eligible property as calculated under the previous sentence;

(M-1) For any taxpayer that is a financial organization within the meaning of Section 304(c) of this Act, an amount included in such total as interest income from a loan or loans made by such taxpayer to a borrower, to the extent that such a loan is secured by property which is eligible for the High Impact Business Investment Credit. To determine the portion of a loan or loans that is secured by property eligible for a Section 201(h) investment credit to the borrower, the entire principal amount of the loan or loans between the taxpayer and the borrower should be divided into the basis of the Section 201(h) investment credit property which secures the loan or loans, using for this purpose the original basis of such property on the date that it was placed in service in a federally designated Foreign Trade Zone or Sub-Zone located in Illinois. No taxpayer that is eligible for the deduction provided in subparagraph (M) of paragraph (2) of this subsection shall be eligible for the deduction provided under this subparagraph.
(M-1). The subtraction modification available to taxpayers in any year under this subsection shall be that portion of the total interest paid by the borrower with respect to such loan attributable to the eligible property as calculated under the previous sentence;

(N) Two times any contribution made during the taxable year to a designated zone organization to the extent that the contribution (i) qualifies as a charitable contribution under subsection (c) of Section 170 of the Internal Revenue Code and (ii) must, by its terms, be used for a project approved by the Department of Commerce and Community Affairs under Section 11 of the Illinois Enterprise Zone Act;

(O) An amount equal to: (i) 85% for taxable years ending on or before December 31, 1992, or, a percentage equal to the percentage allowable under Section 243(a)(1) of the Internal Revenue Code of 1986 for taxable years ending after December 31, 1992, of the amount by which dividends included in taxable income and received from a corporation that is not created or organized under the laws of the United States or any state or political subdivision thereof, including, for taxable years ending on or after December 31, 1998, dividends received or deemed received or paid or deemed paid under Sections 951 through 964 of the Internal Revenue Code, exceed the amount of the modification provided under subparagraph (G) of paragraph (2) of this subsection (b) which is related to such dividends; plus (ii) 100% of the amount by which dividends, included in taxable income and received, including, for taxable years ending on or after December 31, 1988, dividends received or deemed received or paid or deemed paid under Sections 951 through 964 of the Internal Revenue Code, from any such corporation specified in clause (i) that would but for the provisions of Section 1504 (b) (3) of the Internal Revenue Code be treated as a member of the affiliated group which includes the dividend recipient, exceed the amount of the modification provided under subparagraph (G) of paragraph (2) of this subsection (b) which is related to such dividends;

(P) An amount equal to any contribution made to a job training project established pursuant to the Tax Increment Allocation Redevelopment Act;

(Q) An amount equal to the amount of the deduction used to compute the federal income tax credit for restoration of substantial amounts held under claim of right for the taxable year pursuant to Section 1341 of the Internal Revenue Code of 1986;

(R) In the case of an attorney-in-fact with respect to whom an interinsurer or a reciprocal insurer has made the election under Section 835 of
the Internal Revenue Code, 26 U.S.C. 835, an amount equal to the excess, if any, of the amounts paid or incurred by that interinsurer or reciprocal insurer in the taxable year to the attorney-in-fact over the deduction allowed to that interinsurer or reciprocal insurer with respect to the attorney-in-fact under Section 835(b) of the Internal Revenue Code for the taxable year; and

(S) For taxable years ending on or after December 31, 1997, in the case of a Subchapter S corporation, an amount equal to all amounts of income allocable to a shareholder subject to the Personal Property Tax Replacement Income Tax imposed by subsections (c) and (d) of Section 201 of this Act, including amounts allocable to organizations exempt from federal income tax by reason of Section 501(a) of the Internal Revenue Code. This subparagraph (S) is exempt from the provisions of Section 250.

(3) Special rule. For purposes of paragraph (2) (A), "gross income" in the case of a life insurance company, for tax years ending on and after December 31, 1994, shall mean the gross investment income for the taxable year.

(c) Trusts and estates.

(1) In general. In the case of a trust or estate, base income means an amount equal to the taxpayer's taxable income for the taxable year as modified by paragraph (2).

(2) Modifications. Subject to the provisions of paragraph (3), the taxable income referred to in paragraph (1) shall be modified by adding thereto the sum of the following amounts:

(A) An amount equal to all amounts paid or accrued to the taxpayer as interest or dividends during the taxable year to the extent excluded from gross income in the computation of taxable income;

(B) In the case of (i) an estate, $600; (ii) a trust which, under its governing instrument, is required to distribute all of its income currently, $300; and (iii) any other trust, $100, but in each such case, only to the extent such amount was deducted in the computation of taxable income;

(C) An amount equal to the amount of tax imposed by this Act to the extent deducted from gross income in the computation of taxable income for the taxable year;

(D) The amount of any net operating loss deduction taken in arriving at taxable income, other than a net operating loss carried forward from a taxable year ending prior to December 31, 1986;

(E) For taxable years in which a net operating loss carryback or carryforward from a taxable year ending prior to December 31, 1986 is an element of taxable income under paragraph (1) of subsection (e) or subparagraph (E) of paragraph (2) of subsection
(e), the amount by which addition modifications other than those provided by this subparagraph (E) exceeded subtraction modifications in such taxable year, with the following limitations applied in the order that they are listed:

(i) the addition modification relating to the net operating loss carried back or forward to the taxable year from any taxable year ending prior to December 31, 1986 shall be reduced by the amount of addition modification under this subparagraph (E) which related to that net operating loss and which was taken into account in calculating the base income of an earlier taxable year, and

(ii) the addition modification relating to the net operating loss carried back or forward to the taxable year from any taxable year ending prior to December 31, 1986 shall not exceed the amount of such carryback or carryforward;

For taxable years in which there is a net operating loss carryback or carryforward from more than one other taxable year ending prior to December 31, 1986, the addition modification provided in this subparagraph (E) shall be the sum of the amounts computed independently under the preceding provisions of this subparagraph (E) for each such taxable year;

(F) For taxable years ending on or after January 1, 1989, an amount equal to the tax deducted pursuant to Section 164 of the Internal Revenue Code if the trust or estate is claiming the same tax for purposes of the Illinois foreign tax credit under Section 601 of this Act;

(G) An amount equal to the amount of the capital gain deduction allowable under the Internal Revenue Code, to the extent deducted from gross income in the computation of taxable income; and

(G-5) For taxable years ending after December 31, 1997, an amount equal to any eligible remediation costs that the trust or estate deducted in computing adjusted gross income and for which the trust or estate claims a credit under subsection (l) of Section 201;

and by deducting from the total so obtained the sum of the following amounts:

(H) An amount equal to all amounts included in such total pursuant to the provisions of Sections 402(a), 402(c), 403(a), 403(b), 406(a), 407(a) and 408 of the Internal Revenue Code or included in such total as distributions under the provisions of any retirement or disability plan for employees of any governmental agency or unit, or retirement payments to retired partners, which payments are excluded in computing net earnings from self employment by Section 1402 of the Internal Revenue Code and regulations adopted pursuant thereto;
(I) The valuation limitation amount;

(J) An amount equal to the amount of any tax imposed by this Act which was refunded to the taxpayer and included in such total for the taxable year;

(K) An amount equal to all amounts included in taxable income as modified by subparagraphs (A), (B), (C), (D), (E), (F) and (G) which are exempt from taxation by this State either by reason of its statutes or Constitution or by reason of the Constitution, treaties or statutes of the United States; provided that, in the case of any statute of this State that exempts income derived from bonds or other obligations from the tax imposed under this Act, the amount exempted shall be the interest net of bond premium amortization;

(L) With the exception of any amounts subtracted under subparagraph (K), an amount equal to the sum of all amounts disallowed as deductions by (i) Sections 171(a) (2) and 265(a)(2) of the Internal Revenue Code, as now or hereafter amended, and all amounts of expenses allocable to interest and disallowed as deductions by Section 265(1) of the Internal Revenue Code of 1954, as now or hereafter amended; and (ii) for taxable years ending on or after August 13, 1999, Sections 171(a)(2), 265, 280C, and 832(b)(5)(B)(i) of the Internal Revenue Code; the provisions of this subparagraph are exempt from the provisions of Section 250;

(M) An amount equal to those dividends included in such total which were paid by a corporation which conducts business operations in an Enterprise Zone or zones created under the Illinois Enterprise Zone Act and conducts substantially all of its operations in an Enterprise Zone or Zones;

(N) An amount equal to any contribution made to a job training project established pursuant to the Tax Increment Allocation Redevelopment Act;

(O) An amount equal to those dividends included in such total that were paid by a corporation that conducts business operations in a federally designated Foreign Trade Zone or Sub-Zone and that is designated a High Impact Business located in Illinois; provided that dividends eligible for the deduction provided in subparagraph (M) of paragraph (2) of this subsection shall not be eligible for the deduction provided under this subparagraph (O);

(P) An amount equal to the amount of the deduction used to compute the federal income tax credit for restoration of substantial amounts held under claim of right for the taxable year pursuant to Section 1341 of the Internal Revenue Code of 1986; and

(Q) For taxable year 1999 and thereafter, an amount equal to the amount of any (i) distributions, to the extent includible in gross income for federal
income tax purposes, made to the taxpayer because of his or her status as a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime or as an heir of the victim and (ii) items of income, to the extent includible in gross income for federal income tax purposes, attributable to, derived from or in any way related to assets stolen from, hidden from, or otherwise lost to a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime immediately prior to, during, and immediately after World War II, including, but not limited to, interest on the proceeds receivable as insurance under policies issued to a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime by European insurance companies immediately prior to and during World War II; provided, however, this subtraction from federal adjusted gross income does not apply to assets acquired with such assets or with the proceeds from the sale of such assets; provided, further, this paragraph shall only apply to a taxpayer who was the first recipient of such assets after their recovery and who is a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime or as an heir of the victim. The amount of and the eligibility for any public assistance, benefit, or similar entitlement is not affected by the inclusion of items (i) and (ii) of this paragraph in gross income for federal income tax purposes. This paragraph is exempt from the provisions of Section 250.

(3) Limitation. The amount of any modification otherwise required under this subsection shall, under regulations prescribed by the Department, be adjusted by any amounts included therein which were properly paid, credited, or required to be distributed, or permanently set aside for charitable purposes pursuant to Internal Revenue Code Section 642(c) during the taxable year.

(d) Partnerships.

(1) In general. In the case of a partnership, base income means an amount equal to the taxpayer's taxable income for the taxable year as modified by paragraph (2).

(2) Modifications. The taxable income referred to in paragraph (1) shall be modified by adding thereto the sum of the following amounts:

(A) An amount equal to all amounts paid or accrued to the taxpayer as interest or dividends during the taxable year to the extent excluded from gross income in the computation of taxable income;

(B) An amount equal to the amount of tax imposed by this Act to the extent deducted from gross income for the taxable year;

(C) The amount of deductions allowed to the partnership pursuant to Section 707 (c) of the Internal Revenue Code in calculating its taxable
income; and

(D) An amount equal to the amount of the capital gain deduction allowable under the Internal Revenue Code, to the extent deducted from gross income in the computation of taxable income; and by deducting from the total so obtained the following amounts:

(E) The valuation limitation amount;

(F) An amount equal to the amount of any tax imposed by this Act which was refunded to the taxpayer and included in such total for the taxable year;

(G) An amount equal to all amounts included in taxable income as modified by subparagraphs (A), (B), (C) and (D) which are exempt from taxation by this State either by reason of its statutes or Constitution or by reason of the Constitution, treaties or statutes of the United States; provided that, in the case of any statute of this State that exempts income derived from bonds or other obligations from the tax imposed under this Act, the amount exempted shall be the interest net of bond premium amortization;

(H) Any income of the partnership which constitutes personal service income as defined in Section 1348 (b) (1) of the Internal Revenue Code (as in effect December 31, 1981) or a reasonable allowance for compensation paid or accrued for services rendered by partners to the partnership, whichever is greater;

(I) An amount equal to all amounts of income distributable to an entity subject to the Personal Property Tax Replacement Income Tax imposed by subsections (c) and (d) of Section 201 of this Act including amounts distributable to organizations exempt from federal income tax by reason of Section 501(a) of the Internal Revenue Code;

(J) With the exception of any amounts subtracted under subparagraph (G), an amount equal to the sum of all amounts disallowed as deductions by (i) Sections 171(a) (2), and 265(2) of the Internal Revenue Code of 1954, as now or hereafter amended, and all amounts of expenses allocable to interest and disallowed as deductions by Section 265(1) of the Internal Revenue Code, as now or hereafter amended; and (ii) for taxable years ending on after August 13, 1999, Sections 171(a)(2), 265, 280C, and 832(b)(5)(B)(i) of the Internal Revenue Code; the provisions of this subparagraph are exempt from the provisions of Section 250;

(K) An amount equal to those dividends included in such total which were paid by a corporation which conducts business operations in an Enterprise Zone or zones created under the Illinois Enterprise Zone Act, enacted by the 82nd General Assembly, and which does not conduct such operations other than in an Enterprise Zone or Zones;
(L) An amount equal to any contribution made to a job training project established pursuant to the Real Property Tax Increment Allocation Redevelopment Act;

(M) An amount equal to those dividends included in such total that were paid by a corporation that conducts business operations in a federally designated Foreign Trade Zone or Sub-Zone and that is designated a High Impact Business located in Illinois; provided that dividends eligible for the deduction provided in subparagraph (K) of paragraph (2) of this subsection shall not be eligible for the deduction provided under this subparagraph (M); and

(N) An amount equal to the amount of the deduction used to compute the federal income tax credit for restoration of substantial amounts held under claim of right for the taxable year pursuant to Section 1341 of the Internal Revenue Code of 1986.

(e) Gross income; adjusted gross income; taxable income.

(1) In general. Subject to the provisions of paragraph (2) and subsection (b) (3), for purposes of this Section and Section 803(e), a taxpayer's gross income, adjusted gross income, or taxable income for the taxable year shall mean the amount of gross income, adjusted gross income or taxable income properly reportable for federal income tax purposes for the taxable year under the provisions of the Internal Revenue Code. Taxable income may be less than zero. However, for taxable years ending on or after December 31, 1986, net operating loss carryforwards from taxable years ending prior to December 31, 1986, may not exceed the sum of federal taxable income for the taxable year before net operating loss deduction, plus the excess of addition modifications over subtraction modifications for the taxable year. For taxable years ending prior to December 31, 1986, taxable income may never be an amount in excess of the net operating loss for the taxable year as defined in subsections (c) and (d) of Section 172 of the Internal Revenue Code, provided that when taxable income of a corporation (other than a Subchapter S corporation), trust, or estate is less than zero and addition modifications, other than those provided by subparagraph (E) of paragraph (2) of subsection (b) for corporations or subparagraph (E) of paragraph (2) of subsection (c) for trusts and estates, exceed subtraction modifications, an addition modification must be made under those subparagraphs for any other taxable year to which the taxable income less than zero (net operating loss) is applied under Section 172 of the Internal Revenue Code or under subparagraph (E) of paragraph (2) of this subsection (e) applied in conjunction with Section 172 of the Internal Revenue Code.

(2) Special rule. For purposes of paragraph (1) of this subsection, the taxable income properly reportable
for federal income tax purposes shall mean:

(A) Certain life insurance companies. In the case of a life insurance company subject to the tax imposed by Section 801 of the Internal Revenue Code, life insurance company taxable income, plus the amount of distribution from pre-1984 policyholder surplus accounts as calculated under Section 815a of the Internal Revenue Code;

(B) Certain other insurance companies. In the case of mutual insurance companies subject to the tax imposed by Section 831 of the Internal Revenue Code, insurance company taxable income;

(C) Regulated investment companies. In the case of a regulated investment company subject to the tax imposed by Section 852 of the Internal Revenue Code, investment company taxable income;

(D) Real estate investment trusts. In the case of a real estate investment trust subject to the tax imposed by Section 857 of the Internal Revenue Code, real estate investment trust taxable income;

(E) Consolidated corporations. In the case of a corporation which is a member of an affiliated group of corporations filing a consolidated income tax return for the taxable year for federal income tax purposes, taxable income determined as if such corporation had filed a separate return for federal income tax purposes for the taxable year and each preceding taxable year for which it was a member of an affiliated group. For purposes of this subparagraph, the taxpayer's separate taxable income shall be determined as if the election provided by Section 243(b)(2) of the Internal Revenue Code had been in effect for all such years;

(F) Cooperatives. In the case of a cooperative corporation or association, the taxable income of such organization determined in accordance with the provisions of Section 1381 through 1388 of the Internal Revenue Code;

(G) Subchapter S corporations. In the case of: (i) a Subchapter S corporation for which there is in effect an election for the taxable year under Section 1362 of the Internal Revenue Code, the taxable income of such corporation determined in accordance with Section 1363(b) of the Internal Revenue Code, except that taxable income shall take into account those items which are required by Section 1363(b)(1) of the Internal Revenue Code to be separately stated; and (ii) a Subchapter S corporation for which there is in effect a federal election to opt out of the provisions of the Subchapter S Revision Act of 1982 and have applied instead the prior federal Subchapter S rules as in effect on July 1, 1982, the taxable income of such corporation determined in accordance with the federal Subchapter S rules as in effect on July 1, 1982; and
(H) Partnerships. In the case of a partnership, taxable income determined in accordance with Section 703 of the Internal Revenue Code, except that taxable income shall take into account those items which are required by Section 703(a)(1) to be separately stated but which would be taken into account by an individual in calculating his taxable income.

(f) Valuation limitation amount.
   (1) In general. The valuation limitation amount referred to in subsections (a) (2) (G), (c) (2) (I) and (d)(2) (E) is an amount equal to:
      (A) The sum of the pre-August 1, 1969 appreciation amounts (to the extent consisting of gain reportable under the provisions of Section 1245 or 1250 of the Internal Revenue Code) for all property in respect of which such gain was reported for the taxable year; plus
      (B) The lesser of (i) the sum of the pre-August 1, 1969 appreciation amounts (to the extent consisting of capital gain) for all property in respect of which such gain was reported for federal income tax purposes for the taxable year, or (ii) the net capital gain for the taxable year, reduced in either case by any amount of such gain included in the amount determined under subsection (a) (2) (F) or (c) (2) (H).
   (2) Pre-August 1, 1969 appreciation amount.
      (A) If the fair market value of property referred to in paragraph (1) was readily ascertainable on August 1, 1969, the pre-August 1, 1969 appreciation amount for such property is the lesser of (i) the excess of such fair market value over the taxpayer's basis (for determining gain) for such property on that date (determined under the Internal Revenue Code as in effect on that date), or (ii) the total gain realized and reportable for federal income tax purposes in respect of the sale, exchange or other disposition of such property.
      (B) If the fair market value of property referred to in paragraph (1) was not readily ascertainable on August 1, 1969, the pre-August 1, 1969 appreciation amount for such property is that amount which bears the same ratio to the total gain reported in respect of the property for federal income tax purposes for the taxable year, as the number of full calendar months in that part of the taxpayer's holding period for the property ending July 31, 1969 bears to the number of full calendar months in the taxpayer's entire holding period for the property.
      (C) The Department shall prescribe such regulations as may be necessary to carry out the purposes of this paragraph.

(g) Double deductions. Unless specifically provided
otherwise, nothing in this Section shall permit the same item to be deducted more than once.

(h) Legislative intention. Except as expressly provided by this Section there shall be no modifications or limitations on the amounts of income, gain, loss or deduction taken into account in determining gross income, adjusted gross income or taxable income for federal income tax purposes for the taxable year, or in the amount of such items entering into the computation of base income and net income under this Act for such taxable year, whether in respect of property values as of August 1, 1969 or otherwise.

(Source: P.A. 90-491, eff. 1-1-98; 90-717, eff. 8-7-98; 90-770, eff. 8-14-98; 91-192, eff. 7-20-99; 91-205, eff. 7-20-99; 91-357, eff. 7-29-99; 91-541, eff. 8-13-99; 91-676, eff. 12-23-99; 91-845, eff. 6-22-00; 91-913, eff. 1-1-01; revised 1-15-01.)

Section 99. Effective date. This Act takes effect upon becoming law.

AN ACT concerning college savings.

Be it enacted by the People of the State of Illinois, represented in the General Assembly:

Section 5. The State Treasurer Act is amended by changing Section 16.5 as follows:

(15 ILCS 505/16.5)
Sec. 16.5. College Savings Pool. The State Treasurer may establish and administer a College Savings Pool to supplement and enhance the investment opportunities otherwise available to persons seeking to finance the costs of higher education. The State Treasurer, in administering the College Savings Pool, may receive moneys paid into the pool by a participant and may serve as the fiscal agent of that participant for the purpose of holding and investing those moneys.

"Participant", as used in this Section, means any person who makes investments in the pool. "Designated beneficiary", as used in this Section, means any person on whose behalf an account is established in the College Savings Pool by a participant. Both in-state and out-of-state persons may be participants and designated beneficiaries in the College Savings Pool.

New accounts in the College Savings Pool shall be processed through participating financial institutions. "Participating financial institution", as used in this Section, means any financial institution insured by the Federal Deposit Insurance Corporation and lawfully doing business in the State of Illinois and any credit union approved by the State Treasurer and lawfully doing business in the State of Illinois that agrees to process new accounts in the College Savings Pool. Participating financial institutions may charge a processing fee to participants to open an account in the pool that shall not exceed $30 until the year 2001. Beginning in 2001 and every year thereafter, the maximum fee limit shall be adjusted by the Treasurer based on the Consumer Price Index for the North Central Region as published by the United States Department of Labor, Bureau of Labor Statistics for the immediately preceding calendar year. Every contribution received by a financial institution for investment in the College Savings Pool shall be transferred from the financial institution to a location selected by the State Treasurer within one business day following the day that the funds must be made available in accordance with federal law. All communications from the State Treasurer to participants shall reference the participating financial institution at which the account was processed.

The Treasurer may invest the moneys in the College Savings Pool in the same manner, in the same types of investments, and subject to the same limitations provided for
the investment of moneys by the Illinois State Board of Investment. To enhance the safety and liquidity of the College Savings Pool, to ensure the diversification of the investment portfolio of the pool, and in an effort to keep investment dollars in the State of Illinois, the State Treasurer shall make a percentage of each account available for investment in participating financial institutions doing business in the State. The State Treasurer shall deposit with the participating financial institution at which the account was processed the following percentage of each account at a prevailing rate offered by the institution, provided that the deposit is federally insured or fully collateralized and the institution accepts the deposit: 10% of the total amount of each account for which the current age of the beneficiary is less than 7 years of age, 20% of the total amount of each account for which the beneficiary is at least 7 years of age and less than 12 years of age, and 50% of the total amount of each account for which the current age of the beneficiary is at least 12 years of age. The State Treasurer shall adjust each account at least annually to ensure compliance with this Section. The Treasurer shall develop, publish, and implement an investment policy covering the investment of the moneys in the College Savings Pool. The policy shall be published (i) at least once each year in at least one newspaper of general circulation in both Springfield and Chicago and (ii) each year as part of the audit of the College Savings Pool by the Auditor General, which shall be distributed to all participants. The Treasurer shall notify all participants in writing, and the Treasurer shall publish in a newspaper of general circulation in both Chicago and Springfield, any changes to the previously published investment policy at least 30 calendar days before implementing the policy. Any investment policy adopted by the Treasurer shall be reviewed and updated if necessary within 90 days following the date that the State Treasurer takes office.

Participants shall be required to use moneys distributed from the College Savings Pool for qualified expenses at eligible educational institutions. "Qualified expenses", as used in this Section, means the following: (i) tuition, fees, and the costs of books, supplies, and equipment required for enrollment or attendance at an eligible educational institution and (ii) certain room and board expenses incurred while attending an eligible educational institution at least half-time. "Eligible educational institutions", as used in this Section, means public and private colleges, junior colleges, graduate schools, and certain vocational institutions that are described in Section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088) and that are eligible to participate in Department of Education student aid programs. A student shall be considered to be enrolled at least half-time if the student is enrolled for at least half the full-time academic work load for the course of study the student is pursuing as determined under the standards of the institution at which the student is enrolled. Distributions made from the pool for qualified expenses shall be made directly to the eligible educational institution, directly to
a vendor, or in the form of a check payable to both the beneficiary and the institution or vendor. Any moneys that are distributed in any other manner or that are used for expenses other than qualified expenses at an eligible educational institution shall be subject to a penalty of 10% of the earnings unless the beneficiary dies, becomes disabled, or receives a scholarship that equals or exceeds the distribution. Penalties shall be withheld at the time the distribution is made.

The Treasurer shall limit the contributions that may be made on behalf of a designated beneficiary based on an actuarial estimate of what is required to pay tuition, fees, and room and board for 5 undergraduate years at the highest cost eligible educational institution. The contributions made on behalf of a beneficiary who is also a beneficiary under the Illinois Prepaid Tuition Program shall be further restricted to ensure that the contributions in both programs combined do not exceed the limit established for the College Savings Pool. The Treasurer shall provide the Illinois Student Assistance Commission each year at a time designated by the Commission, an electronic report of all participant accounts in the Treasurer's College Savings Pool, listing total contributions and disbursements from each individual account during the previous calendar year. As soon thereafter as is possible following receipt of the Treasurer's report, the Illinois Student Assistance Commission shall, in turn, provide the Treasurer with an electronic report listing those College Savings Pool participants who also participate in the State's prepaid tuition program, administered by the Commission. The Commission shall be responsible for filing any combined tax reports regarding State qualified savings programs required by the United States Internal Revenue Service. The Treasurer shall work with the Illinois Student Assistance Commission to coordinate the marketing of the College Savings Pool and the Illinois Prepaid Tuition Program when considered beneficial by the Treasurer and the Director of the Illinois Student Assistance Commission. The Treasurer's office shall not publicize or otherwise market the College Savings Pool or accept any moneys into the College Savings Pool prior to March 1, 2000. The Treasurer shall provide a separate accounting for each designated beneficiary to each participant, the Illinois Student Assistance Commission, and the participating financial institution at which the account was processed. No interest in the program may be pledged as security for a loan.

The assets of the College Savings Pool and its income and operation shall be exempt from all taxation by the State of Illinois and any of its subdivisions. The accrued earnings on investments in the Pool once disbursed on behalf of a designated beneficiary shall be similarly exempt from all taxation by the State of Illinois and its subdivisions, so long as they are used for qualified expenses. Contributions to a College Savings Pool account during the taxable year may be deducted from adjusted gross income as provided in Section 203 of the Illinois Income Tax Act. The provisions of this paragraph are exempt from Section 250 of the Illinois Income
The Treasurer shall adopt rules he or she considers necessary for the efficient administration of the College Savings Pool. The rules shall provide whatever additional parameters and restrictions are necessary to ensure that the College Savings Pool meets all of the requirements for a qualified state tuition program under Section 529 of the Internal Revenue Code (26 U.S.C. 529). The rules shall provide for the administration expenses of the pool to be paid from its earnings and for the investment earnings in excess of the expenses and all moneys collected as penalties to be credited or paid monthly to the several participants in the pool in a manner which equitably reflects the differing amounts of their respective investments in the pool and the differing periods of time for which those amounts were in the custody of the pool. Also, the rules shall require the maintenance of records that enable the Treasurer's office to produce a report for each account in the pool at least annually that documents the account balance and investment earnings. Notice of any proposed amendments to the rules and regulations shall be provided to all participants prior to adoption. Amendments to rules and regulations shall apply only to contributions made after the adoption of the amendment.

Upon creating the College Savings Pool, the State Treasurer shall give bond with 2 or more sufficient sureties, payable to and for the benefit of the participants in the College Savings Pool, in the penal sum of $1,000,000, conditioned upon the faithful discharge of his or her duties in relation to the College Savings Pool.

No contributions to the College Savings Pool authorized by this Section shall be considered in evaluating the financial situation of the designated beneficiary or be deemed a financial resource of or a form of financial aid or assistance to the designated beneficiary, for purposes of determining eligibility for any scholarship, grant, or monetary assistance awarded by the Illinois Student Assistance Commission, the State, or any agency thereof; nor shall contributions to the College Savings Pool reduce the amount of any scholarship, grant, or monetary assistance that the designated beneficiary is eligible to be awarded by the Illinois Student Assistance Commission, the State, or any agency thereof in accordance with the provisions of any State law.

(Source: P.A. 91-607, eff. 1-1-00; 91-829, eff. 1-1-01; 92-16, eff. 6-28-01; 92-439, eff. 8-17-01.)

Section 10. The Illinois Income Tax Act is amended by changing Section 203 as follows:

(35 ILCS 5/203) (from Ch. 120, par. 2-203)
Sec. 203. Base income defined.
(a) Individuals.
(1) In general. In the case of an individual, base income means an amount equal to the taxpayer's adjusted gross income for the taxable year as modified by paragraph (2).
(2) Modifications. The adjusted gross income referred to in paragraph (1) shall be modified by adding thereto the sum of the following amounts:

(A) An amount equal to all amounts paid or accrued to the taxpayer as interest or dividends during the taxable year to the extent excluded from gross income in the computation of adjusted gross income, except stock dividends of qualified public utilities described in Section 305(e) of the Internal Revenue Code;

(B) An amount equal to the amount of tax imposed by this Act to the extent deducted from gross income in the computation of adjusted gross income for the taxable year;

(C) An amount equal to the amount received during the taxable year as a recovery or refund of real property taxes paid with respect to the taxpayer's principal residence under the Revenue Act of 1939 and for which a deduction was previously taken under subparagraph (L) of this paragraph (2) prior to July 1, 1991, the retrospective application date of Article 4 of Public Act 87-17. In the case of multi-unit or multi-use structures and farm dwellings, the taxes on the taxpayer's principal residence shall be that portion of the total taxes for the entire property which is attributable to such principal residence;

(D) An amount equal to the amount of the capital gain deduction allowable under the Internal Revenue Code, to the extent deducted from gross income in the computation of adjusted gross income;

(D-5) An amount, to the extent not included in adjusted gross income, equal to the amount of money withdrawn by the taxpayer in the taxable year from a medical care savings account and the interest earned on the account in the taxable year of a withdrawal pursuant to subsection (b) of Section 20 of the Medical Care Savings Account Act or subsection (b) of Section 20 of the Medical Care Savings Account Act of 2000; and

(D-10) For taxable years ending after December 31, 1997, an amount equal to any eligible remediation costs that the individual deducted in computing adjusted gross income and for which the individual claims a credit under subsection (l) of Section 201; and

(D-15) For taxable years beginning on or after January 1, 2002, in the case of a distribution from a qualified tuition program under Section 529 of the Internal Revenue Code, other than (i) a distribution from a College Savings Pool created under Section 16.5 of the State Treasurer Act or (ii) a distribution from the Illinois Prepaid Tuition Trust Fund, an amount equal to the amount excluded from gross income under Section 529(c)(3)(B); and by deducting from the total so obtained the sum of the following amounts:
(E) For taxable years ending before December 31, 2001, any amount included in such total in respect of any compensation (including but not limited to any compensation paid or accrued to a serviceman while a prisoner of war or missing in action) paid to a resident by reason of being on active duty in the Armed Forces of the United States and in respect of any compensation paid or accrued to a resident who as a governmental employee was a prisoner of war or missing in action, and in respect of any compensation paid to a resident in 1971 or thereafter for annual training performed pursuant to Sections 502 and 503, Title 32, United States Code as a member of the Illinois National Guard. For taxable years ending on or after December 31, 2001, any amount included in such total in respect of any compensation (including but not limited to any compensation paid or accrued to a serviceman while a prisoner of war or missing in action) paid to a resident by reason of being a member of any component of the Armed Forces of the United States and in respect of any compensation paid or accrued to a resident who as a governmental employee was a prisoner of war or missing in action, and in respect of any compensation paid to a resident in 2001 or thereafter by reason of being a member of the Illinois National Guard. The provisions of this amendatory Act of the 92nd General Assembly are exempt from the provisions of Section 250;

(F) An amount equal to all amounts included in such total pursuant to the provisions of Sections 402(a), 402(c), 403(a), 403(b), 406(a), 407(a), and 408 of the Internal Revenue Code, or included in such total as distributions under the provisions of any retirement or disability plan for employees of any governmental agency or unit, or retirement payments to retired partners, which payments are excluded in computing net earnings from self employment by Section 1402 of the Internal Revenue Code and regulations adopted pursuant thereto;

(G) The valuation limitation amount;

(H) An amount equal to the amount of any tax imposed by this Act which was refunded to the taxpayer and included in such total for the taxable year;

(I) An amount equal to all amounts included in such total pursuant to the provisions of Section 111 of the Internal Revenue Code as a recovery of items previously deducted from adjusted gross income in the computation of taxable income;

(J) An amount equal to those dividends included in such total which were paid by a corporation which conducts business operations in an Enterprise Zone or zones created under the Illinois Enterprise Zone Act, and conducts substantially all of its operations in an Enterprise Zone or zones;

(K) An amount equal to those dividends
included in such total that were paid by a corporation that conducts business operations in a federally designated Foreign Trade Zone or Sub-Zone and that is designated a High Impact Business located in Illinois; provided that dividends eligible for the deduction provided in subparagraph (J) of paragraph (2) of this subsection shall not be eligible for the deduction provided under this subparagraph (K);

(L) For taxable years ending after December 31, 1983, an amount equal to all social security benefits and railroad retirement benefits included in such total pursuant to Sections 72(r) and 86 of the Internal Revenue Code;

(M) With the exception of any amounts subtracted under subparagraph (N), an amount equal to the sum of all amounts disallowed as deductions by (i) Sections 171(a) (2), and 265(2) of the Internal Revenue Code of 1954, as now or hereafter amended, and all amounts of expenses allocable to interest and disallowed as deductions by Section 265(1) of the Internal Revenue Code of 1954, as now or hereafter amended; and (ii) for taxable years ending on or after August 13, 1999, Sections 171(a)(2), 265, 280C, and 832(b)(5)(B)(i) of the Internal Revenue Code; the provisions of this subparagraph are exempt from the provisions of Section 250;

(N) An amount equal to all amounts included in such total which are exempt from taxation by this State either by reason of its statutes or Constitution or by reason of the Constitution, treaties or statutes of the United States; provided that, in the case of any statute of this State that exempts income derived from bonds or other obligations from the tax imposed under this Act, the amount exempted shall be the interest net of bond premium amortization;

(O) An amount equal to any contribution made to a job training project established pursuant to the Tax Increment Allocation Redevelopment Act;

(P) An amount equal to the amount of the deduction used to compute the federal income tax credit for restoration of substantial amounts held under claim of right for the taxable year pursuant to Section 1341 of the Internal Revenue Code of 1986;

(Q) An amount equal to any amounts included in such total, received by the taxpayer as an acceleration in the payment of life, endowment or annuity benefits in advance of the time they would otherwise be payable as an indemnity for a terminal illness;

(R) An amount equal to the amount of any federal or State bonus paid to veterans of the Persian Gulf War;

(S) An amount, to the extent included in
adjusted gross income, equal to the amount of a contribution made in the taxable year on behalf of the taxpayer to a medical care savings account established under the Medical Care Savings Account Act or the Medical Care Savings Account Act of 2000 to the extent the contribution is accepted by the account administrator as provided in that Act;

(T) An amount, to the extent included in adjusted gross income, equal to the amount of interest earned in the taxable year on a medical care savings account established under the Medical Care Savings Account Act or the Medical Care Savings Account Act of 2000 on behalf of the taxpayer, other than interest added pursuant to item (D-5) of this paragraph (2);

(U) For one taxable year beginning on or after January 1, 1994, an amount equal to the total amount of tax imposed and paid under subsections (a) and (b) of Section 201 of this Act on grant amounts received by the taxpayer under the Nursing Home Grant Assistance Act during the taxpayer's taxable years 1992 and 1993;

(V) Beginning with tax years ending on or after December 31, 1995 and ending with tax years ending on or before December 31, 2004, an amount equal to the amount paid by a taxpayer who is a self-employed taxpayer, a partner of a partnership, or a shareholder in a Subchapter S corporation for health insurance or long-term care insurance for that taxpayer or that taxpayer's spouse or dependents, to the extent that the amount paid for that health insurance or long-term care insurance may be deducted under Section 213 of the Internal Revenue Code of 1986, has not been deducted on the federal income tax return of the taxpayer, and does not exceed the taxable income attributable to that taxpayer's income, self-employment income, or Subchapter S corporation income; except that no deduction shall be allowed under this item (V) if the taxpayer is eligible to participate in any health insurance or long-term care insurance plan of an employer of the taxpayer or the taxpayer's spouse. The amount of the health insurance and long-term care insurance subtracted under this item (V) shall be determined by multiplying total health insurance and long-term care insurance premiums paid by the taxpayer times a number that represents the fractional percentage of eligible medical expenses under Section 213 of the Internal Revenue Code of 1986 not actually deducted on the taxpayer's federal income tax return;

(W) For taxable years beginning on or after January 1, 1998, all amounts included in the taxpayer's federal gross income in the taxable year from amounts converted from a regular IRA to a Roth IRA. This paragraph is exempt from the provisions of Section 250;
(X) For taxable year 1999 and thereafter, an amount equal to the amount of any (i) distributions, to the extent includible in gross income for federal income tax purposes, made to the taxpayer because of his or her status as a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime or as an heir of the victim and (ii) items of income, to the extent includible in gross income for federal income tax purposes, attributable to, derived from or in any way related to assets stolen from, hidden from, or otherwise lost to a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime immediately prior to, during, and immediately after World War II, including, but not limited to, interest on the proceeds receivable as insurance under policies issued to a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime by European insurance companies immediately prior to and during World War II; provided, however, this subtraction from federal adjusted gross income does not apply to assets acquired with such assets or with the proceeds from the sale of such assets; provided, further, this paragraph shall only apply to a taxpayer who was the first recipient of such assets after their recovery and who is a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime or as an heir of the victim. The amount of and the eligibility for any public assistance, benefit, or similar entitlement is not affected by the inclusion of items (i) and (ii) of this paragraph in gross income for federal income tax purposes. This paragraph is exempt from the provisions of Section 250; and

(Y) For taxable years beginning on or after January 1, 2002, moneys contributed in the taxable year to a College Savings Pool account under Section 16.5 of the State Treasurer Act, except that amounts excluded from gross income under Section 529(c)(3)(i) of the Internal Revenue Code shall not be considered moneys contributed under this subparagraph (Y). This subparagraph (Y) is exempt from the provisions of Section 250.

(b) Corporations.
(1) In general. In the case of a corporation, base income means an amount equal to the taxpayer's taxable income for the taxable year as modified by paragraph (2).
(2) Modifications. The taxable income referred to in paragraph (1) shall be modified by adding thereto the sum of the following amounts:
(A) An amount equal to all amounts paid or accrued to the taxpayer as interest and all distributions received from regulated investment companies during the taxable year to the extent excluded from gross income in the computation of
(B) An amount equal to the amount of tax imposed by this Act to the extent deducted from gross income in the computation of taxable income for the taxable year;

(C) In the case of a regulated investment company, an amount equal to the excess of (i) the net long-term capital gain for the taxable year, over (ii) the amount of the capital gain dividends designated as such in accordance with Section 852(b)(3)(C) of the Internal Revenue Code and any amount designated under Section 852(b)(3)(D) of the Internal Revenue Code, attributable to the taxable year (this amendatory Act of 1995 (Public Act 89-89) is declarative of existing law and is not a new enactment);

(D) The amount of any net operating loss deduction taken in arriving at taxable income, other than a net operating loss carried forward from a taxable year ending prior to December 31, 1986;

(E) For taxable years in which a net operating loss carryback or carryforward from a taxable year ending prior to December 31, 1986 is an element of taxable income under paragraph (1) of subsection (e) or subparagraph (E) of paragraph (2) of subsection (e), the amount by which addition modifications other than those provided by this subparagraph (E) exceeded subtraction modifications in such earlier taxable year, with the following limitations applied in the order that they are listed:

(i) the addition modification relating to the net operating loss carried back or forward to the taxable year from any taxable year ending prior to December 31, 1986 shall be reduced by the amount of addition modification under this subparagraph (E) which related to that net operating loss and which was taken into account in calculating the base income of an earlier taxable year, and

(ii) the addition modification relating to the net operating loss carried back or forward to the taxable year from any taxable year ending prior to December 31, 1986 shall not exceed the amount of such carryback or carryforward;

For taxable years in which there is a net operating loss carryback or carryforward from more than one other taxable year ending prior to December 31, 1986, the addition modification provided in this subparagraph (E) shall be the sum of the amounts computed independently under the preceding provisions of this subparagraph (E) for each such taxable year; and

(E-5) For taxable years ending after December 31, 1997, an amount equal to any eligible remediation costs that the corporation deducted in computing adjusted gross income and for which the
corporation claims a credit under subsection (l) of Section 201;
and by deducting from the total so obtained the sum of the following amounts:

(F) An amount equal to the amount of any tax imposed by this Act which was refunded to the taxpayer and included in such total for the taxable year;

(G) An amount equal to any amount included in such total under Section 78 of the Internal Revenue Code;

(H) In the case of a regulated investment company, an amount equal to the amount of exempt interest dividends as defined in subsection (b)(5) of Section 852 of the Internal Revenue Code, paid to shareholders for the taxable year;

(I) With the exception of any amounts subtracted under subparagraph (J), an amount equal to the sum of all amounts disallowed as deductions by (i) Sections 171(a)(2), and 265(a)(2) and amounts disallowed as interest expense by Section 291(a)(3) of the Internal Revenue Code, as now or hereafter amended, and all amounts of expenses allocable to interest and disallowed as deductions by Section 265(a)(1) of the Internal Revenue Code, as now or hereafter amended; and (ii) for taxable years ending on or after August 13, 1999, Sections 171(a)(2), 265, 280C, 291(a)(3), and 832(b)(5)(B)(i) of the Internal Revenue Code; the provisions of this subparagraph are exempt from the provisions of Section 250;

(J) An amount equal to all amounts included in such total which are exempt from taxation by this State either by reason of its statutes or Constitution or by reason of the Constitution, treaties or statutes of the United States; provided that, in the case of any statute of this State that exempts income derived from bonds or other obligations from the tax imposed under this Act, the amount exempted shall be the interest net of bond premium amortization;

(K) An amount equal to those dividends included in such total which were paid by a corporation which conducts business operations in an Enterprise Zone or zones created under the Illinois Enterprise Zone Act and conducts substantially all of its operations in an Enterprise Zone or zones;

(L) An amount equal to those dividends included in such total that were paid by a corporation that conducts business operations in a federally designated Foreign Trade Zone or Sub-Zone and that is designated a High Impact Business located in Illinois; provided that dividends eligible for the deduction provided in subparagraph (K) of paragraph 2 of this subsection shall not be eligible for the deduction provided under this subparagraph (L);
(M) For any taxpayer that is a financial organization within the meaning of Section 304(c) of this Act, an amount included in such total as interest income from a loan or loans made by such taxpayer to a borrower, to the extent that such a loan is secured by property which is eligible for the Enterprise Zone Investment Credit. To determine the portion of a loan or loans that is secured by property eligible for a Section 201(f) investment credit to the borrower, the entire principal amount of the loan or loans between the taxpayer and the borrower should be divided into the basis of the Section 201(f) investment credit property which secures the loan or loans, using for this purpose the original basis of such property on the date that it was placed in service in the Enterprise Zone. The subtraction modification available to taxpayer in any year under this subsection shall be that portion of the total interest paid by the borrower with respect to such loan attributable to the eligible property as calculated under the previous sentence;

(M-1) For any taxpayer that is a financial organization within the meaning of Section 304(c) of this Act, an amount included in such total as interest income from a loan or loans made by such taxpayer to a borrower, to the extent that such a loan is secured by property which is eligible for the High Impact Business Investment Credit. To determine the portion of a loan or loans that is secured by property eligible for a Section 201(h) investment credit to the borrower, the entire principal amount of the loan or loans between the taxpayer and the borrower should be divided into the basis of the Section 201(h) investment credit property which secures the loan or loans, using for this purpose the original basis of such property on the date that it was placed in service in a federally designated Foreign Trade Zone or Sub-Zone located in Illinois. No taxpayer that is eligible for the deduction provided in subparagraph (M) of paragraph (2) of this subsection shall be eligible for the deduction provided under this subparagraph (M-1). The subtraction modification available to taxpayers in any year under this subsection shall be that portion of the total interest paid by the borrower with respect to such loan attributable to the eligible property as calculated under the previous sentence;

(N) Two times any contribution made during the taxable year to a designated zone organization to the extent that the contribution (i) qualifies as a charitable contribution under subsection (c) of Section 170 of the Internal Revenue Code and (ii) must, by its terms, be used for a project approved by the Department of Commerce and Community Affairs under Section 11 of the Illinois Enterprise Zone
(O) An amount equal to: (i) 85% for taxable years ending on or before December 31, 1992, or, a percentage equal to the percentage allowable under Section 243(a)(1) of the Internal Revenue Code of 1986 for taxable years ending after December 31, 1992, of the amount by which dividends included in taxable income and received from a corporation that is not created or organized under the laws of the United States or any state or political subdivision thereof, including, for taxable years ending on or after December 31, 1988, dividends received or deemed received or paid or deemed paid under Sections 951 through 964 of the Internal Revenue Code, exceed the amount of the modification provided under subparagraph (G) of paragraph (2) of this subsection (b) which is related to such dividends; plus (ii) 100% of the amount by which dividends, included in taxable income and received, including, for taxable years ending on or after December 31, 1988, dividends received or deemed received or paid or deemed paid under Sections 951 through 964 of the Internal Revenue Code, from any such corporation specified in clause (i) that would but for the provisions of Section 1504 (b) (3) of the Internal Revenue Code be treated as a member of the affiliated group which includes the dividend recipient, exceed the amount of the modification provided under subparagraph (G) of paragraph (2) of this subsection (b) which is related to such dividends;

(P) An amount equal to any contribution made to a job training project established pursuant to the Tax Increment Allocation Redevelopment Act;

(Q) An amount equal to the amount of the deduction used to compute the federal income tax credit for restoration of substantial amounts held under claim of right for the taxable year pursuant to Section 1341 of the Internal Revenue Code of 1986;

(R) In the case of an attorney-in-fact with respect to whom an interinsurer or a reciprocal insurer has made the election under Section 835 of the Internal Revenue Code, 26 U.S.C. 835, an amount equal to the excess, if any, of the amounts paid or incurred by that interinsurer or reciprocal insurer in the taxable year to the attorney-in-fact over the deduction allowed to that interinsurer or reciprocal insurer with respect to the attorney-in-fact under Section 835(b) of the Internal Revenue Code for the taxable year; and

(S) For taxable years ending on or after December 31, 1997, in the case of a Subchapter S corporation, an amount equal to all amounts of income allocable to a shareholder subject to the Personal Property Tax Replacement Income Tax imposed by subsections (c) and (d) of Section 201 of this Act;
Act, including amounts allocable to organizations exempt from federal income tax by reason of Section 501(a) of the Internal Revenue Code. This subparagraph (S) is exempt from the provisions of Section 250.

(3) Special rule. For purposes of paragraph (2) (A), "gross income" in the case of a life insurance company, for tax years ending on and after December 31, 1994, shall mean the gross investment income for the taxable year.

(c) Trusts and estates.

(1) In general. In the case of a trust or estate, base income means an amount equal to the taxpayer's taxable income for the taxable year as modified by paragraph (2).

(2) Modifications. Subject to the provisions of paragraph (3), the taxable income referred to in paragraph (1) shall be modified by adding thereto the sum of the following amounts:

(A) An amount equal to all amounts paid or accrued to the taxpayer as interest or dividends during the taxable year to the extent excluded from gross income in the computation of taxable income;

(B) In the case of (i) an estate, $600; (ii) a trust which, under its governing instrument, is required to distribute all of its income currently, $300; and (iii) any other trust, $100, but in each such case, only to the extent such amount was deducted in the computation of taxable income;

(C) An amount equal to the amount of tax imposed by this Act to the extent deducted from gross income in the computation of taxable income for the taxable year;

(D) The amount of any net operating loss deduction taken in arriving at taxable income, other than a net operating loss carried forward from a taxable year ending prior to December 31, 1986;

(E) For taxable years in which a net operating loss carryback or carryforward from a taxable year ending prior to December 31, 1986 is an element of taxable income under paragraph (1) of subsection (e) or subparagraph (E) of paragraph (2) of subsection (e), the amount by which addition modifications other than those provided by this subparagraph (E) exceeded subtraction modifications in such taxable year, with the following limitations applied in the order that they are listed:

(i) the addition modification relating to the net operating loss carried back or forward to the taxable year from any taxable year ending prior to December 31, 1986 shall be reduced by the amount of addition modification under this subparagraph (E) which related to that net operating loss and which was taken into account in calculating the base income of an earlier taxable year, and
(ii) the addition modification relating
to the net operating loss carried back or
forward to the taxable year from any taxable
year ending prior to December 31, 1986 shall
not exceed the amount of such carryback or
carryforward;
For taxable years in which there is a net
operating loss carryback or carryforward from more
than one other taxable year ending prior to December
31, 1986, the addition modification provided in this
subparagraph (E) shall be the sum of the amounts
computed independently under the preceding
provisions of this subparagraph (E) for each such
taxable year;
(F) For taxable years ending on or after
January 1, 1989, an amount equal to the tax deducted
pursuant to Section 164 of the Internal Revenue Code
if the trust or estate is claiming the same tax for
purposes of the Illinois foreign tax credit under
Section 601 of this Act;
(G) An amount equal to the amount of the
capital gain deduction allowable under the Internal
Revenue Code, to the extent deducted from gross
income in the computation of taxable income; and
(G-5) For taxable years ending after December
31, 1997, an amount equal to any eligible
remediation costs that the trust or estate deducted
in computing adjusted gross income and for which the
trust or estate claims a credit under subsection (l)
of Section 201;
and by deducting from the total so obtained the sum of
the following amounts:
(H) An amount equal to all amounts included in
such total pursuant to the provisions of Sections
402(a), 402(c), 403(a), 403(b), 406(a), 407(a) and
408 of the Internal Revenue Code or included in such
total as distributions under the provisions of any
retirement or disability plan for employees of any
governmental agency or unit, or retirement payments
to retired partners, which payments are excluded in
computing net earnings from self employment by
Section 1402 of the Internal Revenue Code and
regulations adopted pursuant thereto;
(I) The valuation limitation amount;
(J) An amount equal to the amount of any tax
imposed by this Act which was refunded to the
taxpayer and included in such total for the taxable
year;
(K) An amount equal to all amounts included in
taxable income as modified by subparagraphs (A),
(B), (C), (D), (E), (F) and (G) which are exempt
from taxation by this State either by reason of its
statutes or Constitution or by reason of the
Constitution, treaties or statutes of the United
States; provided that, in the case of any statute of
this State that exempts income derived from bonds or
other obligations from the tax imposed under this
Act, the amount exempted shall be the interest net of bond premium amortization;

(L) With the exception of any amounts subtracted under subparagraph (K), an amount equal to the sum of all amounts disallowed as deductions by (i) Sections 171(a)(2) and 265(a)(2) of the Internal Revenue Code, as now or hereafter amended, and all amounts of expenses allocable to interest and disallowed as deductions by Section 265(1) of the Internal Revenue Code of 1954, as now or hereafter amended; and (ii) for taxable years ending on or after August 13, 1999, Sections 171(a)(2), 265, 280C, and 832(b)(5)(B)(i) of the Internal Revenue Code; the provisions of this subparagraph are exempt from the provisions of Section 250;

(M) An amount equal to those dividends included in such total which were paid by a corporation which conducts business operations in an Enterprise Zone or zones created under the Illinois Enterprise Zone Act and conducts substantially all of its operations in an Enterprise Zone or Zones;

(N) An amount equal to any contribution made to a job training project established pursuant to the Tax Increment Allocation Redevelopment Act;

(O) An amount equal to those dividends included in such total that were paid by a corporation that conducts business operations in a federally designated Foreign Trade Zone or Sub-Zone and that is designated a High Impact Business located in Illinois; provided that dividends eligible for the deduction provided in subparagraph (M) of paragraph (2) of this subsection shall not be eligible for the deduction provided under this subparagraph (O);

(P) An amount equal to the amount of the deduction used to compute the federal income tax credit for restoration of substantial amounts held under claim of right for the taxable year pursuant to Section 1341 of the Internal Revenue Code of 1986; and

(Q) For taxable year 1999 and thereafter, an amount equal to the amount of any (i) distributions, to the extent includible in gross income for federal income tax purposes, made to the taxpayer because of his or her status as a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime or as an heir of the victim and (ii) items of income, to the extent includible in gross income for federal income tax purposes, attributable to, derived from or in any way related to assets stolen from, hidden from, or otherwise lost to a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime immediately prior to, during, and immediately after World War II, including, but not limited to, interest on the proceeds receivable as insurance under policies issued to a victim of persecution for
racial or religious reasons by Nazi Germany or any other Axis regime by European insurance companies immediately prior to and during World War II; provided, however, this subtraction from federal adjusted gross income does not apply to assets acquired with such assets or with the proceeds from the sale of such assets; provided, further, this paragraph shall only apply to a taxpayer who was the first recipient of such assets after their recovery and who is a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime or as an heir of the victim. The amount of and the eligibility for any public assistance, benefit, or similar entitlement is not affected by the inclusion of items (i) and (ii) of this paragraph in gross income for federal income tax purposes. This paragraph is exempt from the provisions of Section 250.

(3) Limitation. The amount of any modification otherwise required under this subsection shall, under regulations prescribed by the Department, be adjusted by any amounts included therein which were properly paid, credited, or required to be distributed, or permanently set aside for charitable purposes pursuant to Internal Revenue Code Section 642(c) during the taxable year.

(d) Partnerships.

(1) In general. In the case of a partnership, base income means an amount equal to the taxpayer's taxable income for the taxable year as modified by paragraph (2).

(2) Modifications. The taxable income referred to in paragraph (1) shall be modified by adding thereto the sum of the following amounts:

(A) An amount equal to all amounts paid or accrued to the taxpayer as interest or dividends during the taxable year to the extent excluded from gross income in the computation of taxable income;

(B) An amount equal to the amount of tax imposed by this Act to the extent deducted from gross income for the taxable year;

(C) The amount of deductions allowed to the partnership pursuant to Section 707 (c) of the Internal Revenue Code in calculating its taxable income; and

(D) An amount equal to the amount of the capital gain deduction allowable under the Internal Revenue Code, to the extent deducted from gross income in the computation of taxable income; and by deducting from the total so obtained the following amounts:

(E) The valuation limitation amount;

(F) An amount equal to the amount of any tax imposed by this Act which was refunded to the taxpayer and included in such total for the taxable year;

(G) An amount equal to all amounts included in taxable income as modified by subparagraphs (A),
(B), (C) and (D) which are exempt from taxation by this State either by reason of its statutes or Constitution or by reason of the Constitution, treaties or statutes of the United States; provided that, in the case of any statute of this State that exempts income derived from bonds or other obligations from the tax imposed under this Act, the amount exempted shall be the interest net of bond premium amortization;

(H) Any income of the partnership which constitutes personal service income as defined in Section 1348 (b) (1) of the Internal Revenue Code (as in effect December 31, 1981) or a reasonable allowance for compensation paid or accrued for services rendered by partners to the partnership, whichever is greater;

(I) An amount equal to all amounts of income distributable to an entity subject to the Personal Property Tax Replacement Income Tax imposed by subsections (c) and (d) of Section 201 of this Act including amounts distributable to organizations exempt from federal income tax by reason of Section 501(a) of the Internal Revenue Code;

(J) With the exception of any amounts subtracted under subparagraph (G), an amount equal to the sum of all amounts disallowed as deductions by (i) Sections 171(a) (2), and 265(2) of the Internal Revenue Code of 1954, as now or hereafter amended, and all amounts of expenses allocable to interest and disallowed as deductions by Section 265(1) of the Internal Revenue Code, as now or hereafter amended; and (ii) for taxable years ending on or after August 13, 1999, Sections 171(a)(2), 265, 280C, and 832(b)(5)(B)(i) of the Internal Revenue Code; the provisions of this subparagraph are exempt from the provisions of Section 250;

(K) An amount equal to those dividends included in such total which were paid by a corporation which conducts business operations in an Enterprise Zone or zones created under the Illinois Enterprise Zone Act, enacted by the 82nd General Assembly, and which does not conduct such operations other than in an Enterprise Zone or Zones;

(L) An amount equal to any contribution made to a job training project established pursuant to the Real Property Tax Increment Allocation Redevelopment Act;

(M) An amount equal to those dividends included in such total that were paid by a corporation that conducts business operations in a federally designated Foreign Trade Zone or Sub-Zone and that is designated a High Impact Business located in Illinois; provided that dividends eligible for the deduction provided in subparagraph (K) of paragraph (2) of this subsection shall not be eligible for the deduction provided under this subparagraph (M); and
(N) An amount equal to the amount of the deduction used to compute the federal income tax credit for restoration of substantial amounts held under claim of right for the taxable year pursuant to Section 1341 of the Internal Revenue Code of 1986.

(e) Gross income; adjusted gross income; taxable income.

(1) In general. Subject to the provisions of paragraph (2) and subsection (b) (3), for purposes of this Section and Section 803(e), a taxpayer's gross income, adjusted gross income, or taxable income for the taxable year shall mean the amount of gross income, adjusted gross income or taxable income properly reportable for federal income tax purposes for the taxable year under the provisions of the Internal Revenue Code. Taxable income may be less than zero. However, for taxable years ending on or after December 31, 1986, net operating loss carryforwards from taxable years ending prior to December 31, 1986, may not exceed the sum of federal taxable income for the taxable year before net operating loss deduction, plus the excess of addition modifications over subtraction modifications for the taxable year. For taxable years ending prior to December 31, 1986, taxable income may never be an amount in excess of the net operating loss for the taxable year as defined in subsections (c) and (d) of Section 172 of the Internal Revenue Code, provided that when taxable income of a corporation (other than a Subchapter S corporation), trust, or estate is less than zero and addition modifications, other than those provided by subparagraph (E) of paragraph (2) of subsection (b) for corporations or subparagraph (E) of paragraph (2) of subsection (c) for trusts and estates, exceed subtraction modifications, an addition modification must be made under those subparagraphs for any other taxable year to which the taxable income less than zero (net operating loss) is applied under Section 172 of the Internal Revenue Code or under subparagraph (E) of paragraph (2) of this subsection (e) applied in conjunction with Section 172 of the Internal Revenue Code.

(2) Special rule. For purposes of paragraph (1) of this subsection, the taxable income properly reportable for federal income tax purposes shall mean:

(A) Certain life insurance companies. In the case of a life insurance company subject to the tax imposed by Section 801 of the Internal Revenue Code, life insurance company taxable income, plus the amount of distribution from pre-1984 policyholder surplus accounts as calculated under Section 815a of the Internal Revenue Code;

(B) Certain other insurance companies. In the case of mutual insurance companies subject to the tax imposed by Section 831 of the Internal Revenue Code, insurance company taxable income;

(C) Regulated investment companies. In the case of a regulated investment company subject to
the tax imposed by Section 852 of the Internal Revenue Code, investment company taxable income;

(D) Real estate investment trusts. In the case of a real estate investment trust subject to the tax imposed by Section 857 of the Internal Revenue Code, real estate investment trust taxable income;

(E) Consolidated corporations. In the case of a corporation which is a member of an affiliated group of corporations filing a consolidated income tax return for the taxable year for federal income tax purposes, taxable income determined as if such corporation had filed a separate return for federal income tax purposes for the taxable year and each preceding taxable year for which it was a member of an affiliated group. For purposes of this subparagraph, the taxpayer's separate taxable income shall be determined as if the election provided by Section 243(b) (2) of the Internal Revenue Code had been in effect for all such years;

(F) Cooperatives. In the case of a cooperative corporation or association, the taxable income of such organization determined in accordance with the provisions of Section 1381 through 1388 of the Internal Revenue Code;

(G) Subchapter S corporations. In the case of: (i) a Subchapter S corporation for which there is in effect an election for the taxable year under Section 1362 of the Internal Revenue Code, the taxable income of such corporation determined in accordance with Section 1363(b) of the Internal Revenue Code, except that taxable income shall take into account those items which are required by Section 1363(b)(1) of the Internal Revenue Code to be separately stated; and (ii) a Subchapter S corporation for which there is in effect a federal election to opt out of the provisions of the Subchapter S Revision Act of 1982 and have applied instead the prior federal Subchapter S rules as in effect on July 1, 1982, the taxable income of such corporation determined in accordance with the federal Subchapter S rules as in effect on July 1, 1982; and

(H) Partnerships. In the case of a partnership, taxable income determined in accordance with Section 703 of the Internal Revenue Code, except that taxable income shall take into account those items which are required by Section 703(a)(1) to be separately stated but which would be taken into account by an individual in calculating his taxable income.

(f) Valuation limitation amount.

(1) In general. The valuation limitation amount referred to in subsections (a) (2) (G), (c) (2) (I) and (d)(2) (E) is an amount equal to:

(A) The sum of the pre-August 1, 1969
appreciation amounts (to the extent consisting of
gain reportable under the provisions of Section 1245
or 1250 of the Internal Revenue Code) for all
property in respect of which such gain was reported
for the taxable year; plus

(B) The lesser of (i) the sum of the
pre-August 1, 1969 appreciation amounts (to the
extent consisting of capital gain) for all property
in respect of which such gain was reported for
federal income tax purposes for the taxable year, or
(ii) the net capital gain for the taxable year,
reduced in either case by any amount of such gain
included in the amount determined under subsection
(a) (2) (F) or (c) (2) (H).

(2) Pre-August 1, 1969 appreciation amount.

(A) If the fair market value of property
referred to in paragraph (1) was readily
ascertainable on August 1, 1969, the
pre-August 1, 1969 appreciation amount for such property is the
lesser of (i) the excess of such fair market value
over the taxpayer's basis (for determining gain) for
such property on that date (determined under the
Internal Revenue Code as in effect on that date), or
(ii) the total gain realized and reportable for
federal income tax purposes in respect of the sale,
exchange or other disposition of such property.

(B) If the fair market value of property
referred to in paragraph (1) was not readily
ascertainable on August 1, 1969, the pre-August 1,
1969 appreciation amount for such property is that
amount which bears the same ratio to the total gain
reported in respect of the property for federal
income tax purposes for the taxable year, as the
number of full calendar months in that part of the
taxpayer's holding period for the property ending
July 31, 1969 bears to the number of full calendar
months in the taxpayer's entire holding period for
the property.

(C) The Department shall prescribe such
regulations as may be necessary to carry out the
purposes of this paragraph.

(g) Double deductions. Unless specifically provided
otherwise, nothing in this Section shall permit the same item
to be deducted more than once.

(h) Legislative intention. Except as expressly provided
by this Section there shall be no modifications or
limitations on the amounts of income, gain, loss or deduction
taken into account in determining gross income, adjusted
gross income or taxable income for federal income tax
purposes for the taxable year, or in the amount of such items
entering into the computation of base income and net income
under this Act for such taxable year, whether in respect of
property values as of August 1, 1969 or otherwise.
(Source: P.A. 91-192, eff. 7-20-99; 91-205, eff. 7-20-99;
91-357, eff. 7-29-99; 91-541, eff. 8-13-99; 91-676, eff.
Section 99. Effective date. This Act takes effect upon becoming law.

Passed in the General Assembly May 07, 2002.

Approved July 11, 2002.

Effective July 11, 2002.
AN ACT concerning college savings.

Be it enacted by the People of the State of Illinois, represented in the General Assembly:

Section 5. The State Treasurer Act is amended by changing Section 16.5 as follows:

(15 ILCS 505/16.5)

Sec. 16.5. College Savings Pool. The State Treasurer may establish and administer a College Savings Pool to supplement and enhance the investment opportunities otherwise available to persons seeking to finance the costs of higher education. The State Treasurer, in administering the College Savings Pool, may receive moneys paid into the pool by a participant and may serve as the fiscal agent of that participant for the purpose of holding and investing those moneys.

"Participant", as used in this Section, means any person who makes investments in the pool. "Designated beneficiary", as used in this Section, means any person on whose behalf an account is established in the College Savings Pool by a participant. Both in-state and out-of-state persons may be participants and designated beneficiaries in the College Savings Pool.

New accounts in the College Savings Pool shall be processed through participating financial institutions. "Participating financial institution", as used in this Section, means any financial institution insured by the Federal Deposit Insurance Corporation and lawfully doing business in the State of Illinois and any credit union approved by the State Treasurer and lawfully doing business in the State of Illinois that agrees to process new accounts in the College Savings Pool. Participating financial institutions may charge a processing fee to participants to open an account in the pool that shall not exceed $30 until the year 2001. Beginning in 2001 and every year thereafter, the maximum fee limit shall be adjusted by the Treasurer based on the Consumer Price Index for the North Central Region as published by the United States Department of Labor, Bureau of Labor Statistics for the immediately preceding calendar year. Every contribution received by a financial institution for investment in the College Savings Pool shall be transferred from the financial institution to a location selected by the State Treasurer within one business day following the day that the funds must be made available in
accordance with federal law. All communications from the State Treasurer to participants shall reference the participating financial institution at which the account was processed.

The Treasurer may invest the moneys in the College Savings Pool in the same manner, in the same types of investments, and subject to the same limitations provided for the investment of moneys by the Illinois State Board of Investment. To enhance the safety and liquidity of the College Savings Pool, to ensure the diversification of the investment portfolio of the pool, and in an effort to keep investment dollars in the State of Illinois, the State Treasurer shall make a percentage of each account available for investment in participating financial institutions doing business in the State. The State Treasurer shall deposit with the participating financial institution at which the account was processed the following percentage of each account at a prevailing rate offered by the institution, provided that the deposit is federally insured or fully collateralized and the institution accepts the deposit: 10% of the total amount of each account for which the current age of the beneficiary is less than 7 years of age, 20% of the total amount of each account for which the beneficiary is at least 7 years of age and less than 12 years of age, and 50% of the total amount of each account for which the current age of the beneficiary is at least 12 years of age. The State Treasurer shall adjust each account at least annually to ensure compliance with this Section. The Treasurer shall develop, publish, and implement an investment policy covering the investment of the moneys in the College Savings Pool. The policy shall be published (i) at least once each year in at least one newspaper of general circulation in both Springfield and Chicago and (ii) each year as part of the audit of the College Savings Pool by the Auditor General, which shall be distributed to all participants. The Treasurer shall notify all participants in writing, and the Treasurer shall publish in a newspaper of general circulation in both Chicago and Springfield, any changes to the previously published investment policy at least 30 calendar days before implementing the policy. Any investment policy adopted by the Treasurer shall be reviewed and updated if necessary within 90 days following the date that the State Treasurer takes office.

Participants shall be required to use moneys distributed from the College Savings Pool for qualified expenses at eligible educational institutions. "Qualified expenses", as used in this Section, means the following: (i) tuition, fees, and the costs of books, supplies, and equipment required for enrollment or attendance at an eligible educational institution and (ii) certain room and board expenses incurred while attending an eligible educational institution at least
half-time. "Eligible educational institutions", as used in
this Section, means public and private colleges, junior
colleges, graduate schools, and certain vocational
institutions that are described in Section 481 of the Higher
Education Act of 1965 (20 U.S.C. 1088) and that are eligible to
participate in Department of Education student aid programs. A
student shall be considered to be enrolled at least half-time
if the student is enrolled for at least half the full-time
academic work load for the course of study the student is
pursuing as determined under the standards of the institution
at which the student is enrolled. Distributions made from the
pool for qualified expenses shall be made directly to the
eligible educational institution, directly to a vendor, or in
the form of a check payable to both the beneficiary and the
institution or vendor. Any moneys that are distributed in any
other manner or that are used for expenses other than qualified
expenses at an eligible educational institution shall be
subject to a penalty of 10% of the earnings unless the
beneficiary dies, becomes disabled, or receives a scholarship
that equals or exceeds the distribution. Penalties shall be
withheld at the time the distribution is made.

The Treasurer shall limit the contributions that may be
made on behalf of a designated beneficiary based on an
actuarial estimate of what is required to pay tuition, fees,
and room and board for 5 undergraduate years at the highest
cost eligible educational institution. The contributions made
on behalf of a beneficiary who is also a beneficiary under the
Illinois Prepaid Tuition Program shall be further restricted to
ensure that the contributions in both programs combined do not
exceed the limit established for the College Savings Pool. The
Treasurer shall provide the Illinois Student Assistance
Commission each year at a time designated by the Commission, an
electronic report of all participant accounts in the
Treasurer's College Savings Pool, listing total contributions
and disbursements from each individual account during the
previous calendar year. As soon thereafter as is possible
following receipt of the Treasurer's report, the Illinois
Student Assistance Commission shall, in turn, provide the
Treasurer with an electronic report listing those College
Savings Pool participants who also participate in the State's
prepaid tuition program, administered by the Commission. The
Commission shall be responsible for filing any combined tax
reports regarding State qualified savings programs required by
the United States Internal Revenue Service. The Treasurer shall
work with the Illinois Student Assistance Commission to
coordinate the marketing of the College Savings Pool and the
Illinois Prepaid Tuition Program when considered beneficial by
the Treasurer and the Director of the Illinois Student
Assistance Commission. The Treasurer's office shall not publicize or otherwise market the College Savings Pool or accept any moneys into the College Savings Pool prior to March 1, 2000. The Treasurer shall provide a separate accounting for each designated beneficiary to each participant, the Illinois Student Assistance Commission, and the participating financial institution at which the account was processed. No interest in the program may be pledged as security for a loan.

The assets of the College Savings Pool and its income and operation shall be exempt from all taxation by the State of Illinois and any of its subdivisions. The accrued earnings on investments in the Pool once disbursed on behalf of a designated beneficiary shall be similarly exempt from all taxation by the State of Illinois and its subdivisions, so long as they are used for qualified expenses. Contributions to a College Savings Pool account during the taxable year may be deducted from adjusted gross income as provided in Section 203 of the Illinois Income Tax Act. The provisions of this paragraph are exempt from Section 250 of the Illinois Income Tax Act.

The Treasurer shall adopt rules he or she considers necessary for the efficient administration of the College Savings Pool. The rules shall provide whatever additional parameters and restrictions are necessary to ensure that the College Savings Pool meets all of the requirements for a qualified state tuition program under Section 529 of the Internal Revenue Code (26 U.S.C. 529). The rules shall provide for the administration expenses of the pool to be paid from its earnings and for the investment earnings in excess of the expenses and all moneys collected as penalties to be credited or paid monthly to the several participants in the pool in a manner which equitably reflects the differing amounts of their respective investments in the pool and the differing periods of time for which those amounts were in the custody of the pool. Also, the rules shall require the maintenance of records that enable the Treasurer's office to produce a report for each account in the pool at least annually that documents the account balance and investment earnings. Notice of any proposed amendments to the rules and regulations shall be provided to all participants prior to adoption. Amendments to rules and regulations shall apply only to contributions made after the adoption of the amendment.

Upon creating the College Savings Pool, the State Treasurer shall give bond with 2 or more sufficient sureties, payable to and for the benefit of the participants in the College Savings Pool, in the penal sum of $1,000,000, conditioned upon the faithful discharge of his or her duties in relation to the
No contributions to the College Savings Pool authorized by this Section shall be considered in evaluating the financial situation of the designated beneficiary or be deemed a financial resource of or a form of financial aid or assistance to the designated beneficiary, for purposes of determining eligibility for any scholarship, grant, or monetary assistance awarded by the Illinois Student Assistance Commission, the State, or any agency thereof; nor shall contributions to the College Savings Pool reduce the amount of any scholarship, grant, or monetary assistance that the designated beneficiary is eligible to be awarded by the Illinois Student Assistance Commission, the State, or any agency thereof in accordance with the provisions of any State law.

(Source: P.A. 91-607, eff. 1-1-00; 91-829, eff. 1-1-01; 92-16, eff. 6-28-01; 92-439, eff. 8-17-01; 92-626, eff. 7-11-02.)

Section 10. The Illinois Income Tax Act is amended by changing Section 203 as follows:

(35 ILCS 5/203) (from Ch. 120, par. 2-203)
Sec. 203. Base income defined.
(a) Individuals.
(1) In general. In the case of an individual, base income means an amount equal to the taxpayer's adjusted gross income for the taxable year as modified by paragraph (2).
(2) Modifications. The adjusted gross income referred to in paragraph (1) shall be modified by adding thereto the sum of the following amounts:
(A) An amount equal to all amounts paid or accrued to the taxpayer as interest or dividends during the taxable year to the extent excluded from gross income in the computation of adjusted gross income, except stock dividends of qualified public utilities described in Section 305(e) of the Internal Revenue Code;
(B) An amount equal to the amount of tax imposed by this Act to the extent deducted from gross income in the computation of adjusted gross income for the taxable year;
(C) An amount equal to the amount received during the taxable year as a recovery or refund of real property taxes paid with respect to the taxpayer's principal residence under the Revenue Act of 1939 and for which a deduction was previously taken under subparagraph (L) of this paragraph (2) prior to July 1, 1991, the retrospective application date of Article 4 of Public Act 87-17. In the case of multi-unit or
multi-use structures and farm dwellings, the taxes on
the taxpayer's principal residence shall be that
portion of the total taxes for the entire property
which is attributable to such principal residence;
(D) An amount equal to the amount of the capital
gain deduction allowable under the Internal Revenue
Code, to the extent deducted from gross income in the
computation of adjusted gross income;
(D-5) An amount, to the extent not included in
adjusted gross income, equal to the amount of money
withdrawn by the taxpayer in the taxable year from a
medical care savings account and the interest earned on
the account in the taxable year of a withdrawal
pursuant to subsection (b) of Section 20 of the Medical
Care Savings Account Act or subsection (b) of Section
20 of the Medical Care Savings Account Act of 2000;
(D-10) For taxable years ending after December 31,
1997, an amount equal to any eligible remediation costs
that the individual deducted in computing adjusted
gross income and for which the individual claims a
credit under subsection (i) of Section 201;
(D-15) For taxable years 2001 and thereafter, an
amount equal to the bonus depreciation deduction (30%
of the adjusted basis of the qualified property) taken
on the taxpayer's federal income tax return for the
taxable year under subsection (k) of Section 168 of the
Internal Revenue Code;
(D-16) If the taxpayer reports a capital gain or
loss on the taxpayer's federal income tax return for
the taxable year based on a sale or transfer of
property for which the taxpayer was required in any
taxable year to make an addition modification under
subparagraph (D-15), then an amount equal to the
aggregate amount of the deductions taken in all taxable
years under subparagraph (Z) with respect to that
property. The taxpayer is required to make the addition
modification under this subparagraph only once with
respect to any one piece of property; and
(D-20) For taxable years beginning on or
after January 1, 2002, in the case of a distribution
from a qualified tuition program under Section 529 of
the Internal Revenue Code, other than (i) a
distribution from a College Savings Pool created under
Section 16.5 of the State Treasurer Act or (ii) a
distribution from the Illinois Prepaid Tuition Trust
Fund, an amount equal to the amount excluded from gross
income under Section 529(c)(3)(B);
and by deducting from the total so obtained the sum of the following amounts:

(E) For taxable years ending before December 31, 2001, any amount included in such total in respect of any compensation (including but not limited to any compensation paid or accrued to a serviceman while a prisoner of war or missing in action) paid to a resident by reason of being on active duty in the Armed Forces of the United States and in respect of any compensation paid or accrued to a resident who as a governmental employee was a prisoner of war or missing in action, and in respect of any compensation paid to a resident in 1971 or thereafter for annual training performed pursuant to Sections 502 and 503, Title 32, United States Code as a member of the Illinois National Guard. For taxable years ending on or after December 31, 2001, any amount included in such total in respect of any compensation (including but not limited to any compensation paid or accrued to a serviceman while a prisoner of war or missing in action) paid to a resident by reason of being a member of any component of the Armed Forces of the United States and in respect of any compensation paid or accrued to a resident who as a governmental employee was a prisoner of war or missing in action, and in respect of any compensation paid to a resident in 2001 or thereafter by reason of being a member of the Illinois National Guard. The provisions of this amendatory Act of the 92nd General Assembly are exempt from the provisions of Section 250;

(F) An amount equal to all amounts included in such total pursuant to the provisions of Sections 402(a), 402(c), 403(a), 403(b), 406(a), 407(a), and 408 of the Internal Revenue Code, or included in such total as distributions under the provisions of any retirement or disability plan for employees of any governmental agency or unit, or retirement payments to retired partners, which payments are excluded in computing net earnings from self employment by Section 1402 of the Internal Revenue Code and regulations adopted pursuant thereto;

(G) The valuation limitation amount;

(H) An amount equal to the amount of any tax imposed by this Act which was refunded to the taxpayer and included in such total for the taxable year;

(I) An amount equal to all amounts included in such total pursuant to the provisions of Section 111 of the Internal Revenue Code as a recovery of items previously
deducted from adjusted gross income in the computation of taxable income;

(J) An amount equal to those dividends included in such total which were paid by a corporation which conducts business operations in an Enterprise Zone or zones created under the Illinois Enterprise Zone Act, and conducts substantially all of its operations in an Enterprise Zone or zones;

(K) An amount equal to those dividends included in such total that were paid by a corporation that conducts business operations in a federally designated Foreign Trade Zone or Sub-Zone and that is designated a High Impact Business located in Illinois; provided that dividends eligible for the deduction provided in subparagraph (J) of paragraph (2) of this subsection shall not be eligible for the deduction provided under this subparagraph (K);

(L) For taxable years ending after December 31, 1983, an amount equal to all social security benefits and railroad retirement benefits included in such total pursuant to Sections 72(r) and 86 of the Internal Revenue Code;

(M) With the exception of any amounts subtracted under subparagraph (N), an amount equal to the sum of all amounts disallowed as deductions by (i) Sections 171(a) (2), and 265(2) of the Internal Revenue Code of 1954, as now or hereafter amended, and all amounts of expenses allocable to interest and disallowed as deductions by Section 265(1) of the Internal Revenue Code of 1954, as now or hereafter amended; and (ii) for taxable years ending on or after August 13, 1999, Sections 171(a)(2), 265, 280C, and 832(b)(5)(B)(i) of the Internal Revenue Code; the provisions of this subparagraph are exempt from the provisions of Section 250;

(N) An amount equal to all amounts included in such total which are exempt from taxation by this State either by reason of its statutes or Constitution or by reason of the Constitution, treaties or statutes of the United States; provided that, in the case of any statute of this State that exempts income derived from bonds or other obligations from the tax imposed under this Act, the amount exempted shall be the interest net of bond premium amortization;

(O) An amount equal to any contribution made to a job training project established pursuant to the Tax Increment Allocation Redevelopment Act;

(P) An amount equal to the amount of the deduction
used to compute the federal income tax credit for
restoration of substantial amounts held under claim of
right for the taxable year pursuant to Section 1341 of
the Internal Revenue Code of 1986;

(Q) An amount equal to any amounts included in such
amounts, received by the taxpayer as an acceleration in
the payment of life, endowment or annuity benefits in
advance of the time they would otherwise be payable as
an indemnity for a terminal illness;

(R) An amount equal to the amount of any federal or
State bonus paid to veterans of the Persian Gulf War;

(S) An amount, to the extent included in adjusted
gross income, equal to the amount of a contribution
made in the taxable year on behalf of the taxpayer to a
medical care savings account established under the
Medical Care Savings Account Act or the Medical Care
Savings Account Act of 2000 to the extent the
contribution is accepted by the account administrator
as provided in that Act;

(T) An amount, to the extent included in adjusted
gross income, equal to the amount of interest earned in
the taxable year on a medical care savings account
established under the Medical Care Savings Account Act
or the Medical Care Savings Account Act of 2000 on
behalf of the taxpayer, other than interest added
pursuant to item (D-5) of this paragraph (2);

(U) For one taxable year beginning on or after
January 1, 1994, an amount equal to the total amount of
tax imposed and paid under subsections (a) and (b) of
Section 201 of this Act on grant amounts received by
the taxpayer under the Nursing Home Grant Assistance
Act during the taxpayer's taxable years 1992 and 1993;

(V) Beginning with tax years ending on or after
December 31, 1995 and ending with tax years ending on
or before December 31, 2004, an amount equal to the
amount paid by a taxpayer who is a self-employed
taxpayer, a partner of a partnership, or a shareholder
in a Subchapter S corporation for health insurance or
long-term care insurance for that taxpayer or that
taxpayer's spouse or dependents, to the extent that the
amount paid for that health insurance or long-term care
insurance may be deducted under Section 213 of the
Internal Revenue Code of 1986, has not been deducted on
the federal income tax return of the taxpayer, and does
not exceed the taxable income attributable to that
taxpayer's income, self-employment income, or
Subchapter S corporation income; except that no
deduction shall be allowed under this item (V) if the
The taxpayer is eligible to participate in any health insurance or long-term care insurance plan of an employer of the taxpayer or the taxpayer's spouse. The amount of the health insurance and long-term care insurance subtracted under this item (V) shall be determined by multiplying total health insurance and long-term care insurance premiums paid by the taxpayer times a number that represents the fractional percentage of eligible medical expenses under Section 213 of the Internal Revenue Code of 1986 not actually deducted on the taxpayer's federal income tax return;

(W) For taxable years beginning on or after January 1, 1998, all amounts included in the taxpayer's federal gross income in the taxable year from amounts converted from a regular IRA to a Roth IRA. This paragraph is exempt from the provisions of Section 250;

(X) For taxable year 1999 and thereafter, an amount equal to the amount of any (i) distributions, to the extent includible in gross income for federal income tax purposes, made to the taxpayer because of his or her status as a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime or as an heir of the victim and (ii) items of income, to the extent includible in gross income for federal income tax purposes, attributable to, derived from or in any way related to assets stolen from, hidden from, or otherwise lost to a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime immediately prior to, during, and immediately after World War II, including, but not limited to, interest on the proceeds receivable as insurance under policies issued to a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime by European insurance companies immediately prior to and during World War II; provided, however, this subtraction from federal adjusted gross income does not apply to assets acquired with such assets or with the proceeds from the sale of such assets; provided, further, this paragraph shall only apply to a taxpayer who was the first recipient of such assets after their recovery and who is a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime or as an heir of the victim. The amount of and the eligibility for any public assistance, benefit, or similar entitlement is not affected by the inclusion of items (i) and (ii) of this paragraph in gross income for federal income tax.
purposes. This paragraph is exempt from the provisions of Section 250;

(Y) For taxable years beginning on or after January 1, 2002 and ending on or before December 31, 2004, moneys contributed in the taxable year to a College Savings Pool account under Section 16.5 of the State Treasurer Act, except that amounts excluded from gross income under Section 529(c)(3)(C)(i) of the Internal Revenue Code shall not be considered moneys contributed under this subparagraph (Y). For taxable years beginning on or after January 1, 2005, a maximum of $10,000 contributed in the taxable year to (i) a College Savings Pool account under Section 16.5 of the State Treasurer Act or (ii) the Illinois Prepaid Tuition Trust Fund, except that amounts excluded from gross income under Section 529(c)(3)(C)(i) of the Internal Revenue Code shall not be considered moneys contributed under this subparagraph (Y). This subparagraph (Y) is exempt from the provisions of Section 250;

(Z) For taxable years 2001 and thereafter, for the taxable year in which the bonus depreciation deduction (30% of the adjusted basis of the qualified property) is taken on the taxpayer's federal income tax return under subsection (k) of Section 168 of the Internal Revenue Code and for each applicable taxable year thereafter, an amount equal to "x", where:

(1) "y" equals the amount of the depreciation deduction taken for the taxable year on the taxpayer's federal income tax return on property for which the bonus depreciation deduction (30% of the adjusted basis of the qualified property) was taken in any year under subsection (k) of Section 168 of the Internal Revenue Code, but not including the bonus depreciation deduction; and

(2) "x" equals "y" multiplied by 30 and then divided by 70 (or "y" multiplied by 0.429).

The aggregate amount deducted under this subparagraph in all taxable years for any one piece of property may not exceed the amount of the bonus depreciation deduction (30% of the adjusted basis of the qualified property) taken on that property on the taxpayer's federal income tax return under subsection (k) of Section 168 of the Internal Revenue Code; and

(AA) If the taxpayer reports a capital gain or loss on the taxpayer's federal income tax return for the taxable year based on a sale or transfer of property for which the taxpayer was required in any taxable year
to make an addition modification under subparagraph
(D-15), then an amount equal to that addition
modification.

The taxpayer is allowed to take the deduction under
this subparagraph only once with respect to any one
piece of property; and

(BB) Amount included in adjusted gross
income, other than salary, received by a driver in a
ridesharing arrangement using a motor vehicle.

(b) Corporations.

(1) In general. In the case of a corporation, base
income means an amount equal to the taxpayer's taxable
income for the taxable year as modified by paragraph (2).

(2) Modifications. The taxable income referred to in
paragraph (1) shall be modified by adding thereto the sum
of the following amounts:

(A) An amount equal to all amounts paid or accrued
to the taxpayer as interest and all distributions
received from regulated investment companies during
the taxable year to the extent excluded from gross
income in the computation of taxable income;

(B) An amount equal to the amount of tax imposed by
this Act to the extent deducted from gross income in
the computation of taxable income for the taxable year;

(C) In the case of a regulated investment company,
an amount equal to the excess of (i) the net long-term
capital gain for the taxable year, over (ii) the amount
of the capital gain dividends designated as such in
accordance with Section 852(b)(3)(C) of the Internal
Revenue Code and any amount designated under Section
852(b)(3)(D) of the Internal Revenue Code,
attributable to the taxable year (this amendatory Act
of 1995 (Public Act 89-89) is declarative of existing
law and is not a new enactment);

(D) The amount of any net operating loss deduction
taken in arriving at taxable income, other than a net
operating loss carried forward from a taxable year
ending prior to December 31, 1986;

(E) For taxable years in which a net operating loss
carryback or carryforward from a taxable year ending
prior to December 31, 1986 is an element of taxable
income under paragraph (1) of subsection (e) or
subparagraph (E) of paragraph (2) of subsection (e),
the amount by which addition modifications other than
those provided by this subparagraph (E) exceeded
subtraction modifications in such earlier taxable
year, with the following limitations applied in the
order that they are listed:
(i) the addition modification relating to the net operating loss carried back or forward to the taxable year from any taxable year ending prior to December 31, 1986 shall be reduced by the amount of addition modification under this subparagraph (E) which related to that net operating loss and which was taken into account in calculating the base income of an earlier taxable year, and

(ii) the addition modification relating to the net operating loss carried back or forward to the taxable year from any taxable year ending prior to December 31, 1986 shall not exceed the amount of such carryback or carryforward;

For taxable years in which there is a net operating loss carryback or carryforward from more than one other taxable year ending prior to December 31, 1986, the addition modification provided in this subparagraph (E) shall be the sum of the amounts computed independently under the preceding provisions of this subparagraph (E) for each such taxable year;

(E-5) For taxable years ending after December 31, 1997, an amount equal to any eligible remediation costs that the corporation deducted in computing adjusted gross income and for which the corporation claims a credit under subsection (l) of Section 201;

(E-10) For taxable years 2001 and thereafter, an amount equal to the bonus depreciation deduction (30% of the adjusted basis of the qualified property) taken on the taxpayer's federal income tax return for the taxable year under subsection (k) of Section 168 of the Internal Revenue Code; and

(E-11) If the taxpayer reports a capital gain or loss on the taxpayer's federal income tax return for the taxable year based on a sale or transfer of property for which the taxpayer was required in any taxable year to make an addition modification under subparagraph (E-10), then an amount equal to the aggregate amount of the deductions taken in all taxable years under subparagraph (T) with respect to that property;

The taxpayer is required to make the addition modification under this subparagraph only once with respect to any one piece of property; and by deducting from the total so obtained the sum of the following amounts:

(F) An amount equal to the amount of any tax imposed by this Act which was refunded to the taxpayer.
(G) An amount equal to any amount included in such total under Section 78 of the Internal Revenue Code;

(H) In the case of a regulated investment company, an amount equal to the amount of exempt interest dividends as defined in subsection (b) (5) of Section 852 of the Internal Revenue Code, paid to shareholders for the taxable year;

(I) With the exception of any amounts subtracted under subparagraph (J), an amount equal to the sum of all amounts disallowed as deductions by (i) Sections 171(a) (2), and 265(a)(2) and amounts disallowed as interest expense by Section 291(a)(3) of the Internal Revenue Code, as now or hereafter amended, and all amounts of expenses allocable to interest and disallowed as deductions by Section 265(a)(1) of the Internal Revenue Code, as now or hereafter amended; and (ii) for taxable years ending on or after August 13, 1999, Sections 171(a)(2), 265, 280C, 291(a)(3), and 832(b)(5)(B)(i) of the Internal Revenue Code; the provisions of this subparagraph are exempt from the provisions of Section 250;

(J) An amount equal to all amounts included in such total which are exempt from taxation by this State either by reason of its statutes or Constitution or by reason of the Constitution, treaties or statutes of the United States; provided that, in the case of any statute of this State that exempts income derived from bonds or other obligations from the tax imposed under this Act, the amount exempted shall be the interest net of bond premium amortization;

(K) An amount equal to those dividends included in such total which were paid by a corporation which conducts business operations in an Enterprise Zone or zones created under the Illinois Enterprise Zone Act and conducts substantially all of its operations in an Enterprise Zone or zones;

(L) An amount equal to those dividends included in such total that were paid by a corporation that conducts business operations in a federally designated Foreign Trade Zone or Sub-Zone and that is designated a High Impact Business located in Illinois; provided that dividends eligible for the deduction provided in subparagraph (K) of paragraph 2 of this subsection shall not be eligible for the deduction provided under this subparagraph (L);

(M) For any taxpayer that is a financial organization within the meaning of Section 304(c) of
this Act, an amount included in such total as interest income from a loan or loans made by such taxpayer to a borrower, to the extent that such a loan is secured by property which is eligible for the Enterprise Zone Investment Credit. To determine the portion of a loan or loans that is secured by property eligible for a Section 201(f) investment credit to the borrower, the entire principal amount of the loan or loans between the taxpayer and the borrower should be divided into the basis of the Section 201(f) investment credit property which secures the loan or loans, using for this purpose the original basis of such property on the date that it was placed in service in the Enterprise Zone. The subtraction modification available to taxpayer in any year under this subsection shall be that portion of the total interest paid by the borrower with respect to such loan attributable to the eligible property as calculated under the previous sentence;

(M-1) For any taxpayer that is a financial organization within the meaning of Section 304(c) of this Act, an amount included in such total as interest income from a loan or loans made by such taxpayer to a borrower, to the extent that such a loan is secured by property which is eligible for the High Impact Business Investment Credit. To determine the portion of a loan or loans that is secured by property eligible for a Section 201(h) investment credit to the borrower, the entire principal amount of the loan or loans between the taxpayer and the borrower should be divided into the basis of the Section 201(h) investment credit property which secures the loan or loans, using for this purpose the original basis of such property on the date that it was placed in service in a federally designated Foreign Trade Zone or Sub-Zone located in Illinois. No taxpayer that is eligible for the deduction provided in subparagraph (M) of paragraph (2) of this subsection shall be eligible for the deduction provided under this subparagraph (M-1). The subtraction modification available to taxpayers in any year under this subsection shall be that portion of the total interest paid by the borrower with respect to such loan attributable to the eligible property as calculated under the previous sentence;

(N) Two times any contribution made during the taxable year to a designated zone organization to the extent that the contribution (i) qualifies as a charitable contribution under subsection (c) of Section 170 of the Internal Revenue Code and (ii) must,
by its terms, be used for a project approved by the
Department of Commerce and Economic Opportunity
Community Affairs under Section 11 of the Illinois
Enterprise Zone Act;

(0) An amount equal to: (i) 85% for taxable years ending on or before December 31, 1992, or, a percentage equal to the percentage allowable under Section 243(a)(1) of the Internal Revenue Code of 1986 for taxable years ending after December 31, 1992, of the amount by which dividends included in taxable income and received from a corporation that is not created or organized under the laws of the United States or any state or political subdivision thereof, including, for taxable years ending on or after December 31, 1988, dividends received or deemed received or paid or deemed paid under Sections 951 through 964 of the Internal Revenue Code, exceed the amount of the modification provided under subparagraph (G) of paragraph (2) of this subsection (b) which is related to such dividends; plus (ii) 100% of the amount by which dividends, included in taxable income and received, including, for taxable years ending on or after December 31, 1988, dividends received or deemed received or paid or deemed paid under Sections 951 through 964 of the Internal Revenue Code, from any such corporation specified in clause (i) that would but for the provisions of Section 1504 (b) (3) of the Internal Revenue Code be treated as a member of the affiliated group which includes the dividend recipient, exceed the amount of the modification provided under subparagraph (G) of paragraph (2) of this subsection (b) which is related to such dividends;

(P) An amount equal to any contribution made to a job training project established pursuant to the Tax Increment Allocation Redevelopment Act;

(Q) An amount equal to the amount of the deduction used to compute the federal income tax credit for restoration of substantial amounts held under claim of right for the taxable year pursuant to Section 1341 of the Internal Revenue Code of 1986;

(R) In the case of an attorney-in-fact with respect to whom an interinsurer or a reciprocal insurer has made the election under Section 835 of the Internal Revenue Code, 26 U.S.C. 835, an amount equal to the excess, if any, of the amounts paid or incurred by that interinsurer or reciprocal insurer in the taxable year to the attorney-in-fact over the deduction allowed to
that interinsurer or reciprocal insurer with respect
to the attorney-in-fact under Section 835(b) of the
Internal Revenue Code for the taxable year;
(S) For taxable years ending on or after December
31, 1997, in the case of a Subchapter S corporation, an
amount equal to all amounts of income allocable to a
shareholder subject to the Personal Property Tax
Replacement Income Tax imposed by subsections (c) and
(d) of Section 201 of this Act, including amounts
allocable to organizations exempt from federal income
tax by reason of Section 501(a) of the Internal Revenue
Code. This subparagraph (S) is exempt from the
provisions of Section 250;
(T) For taxable years 2001 and thereafter, for the
taxable year in which the bonus depreciation deduction
(30% of the adjusted basis of the qualified property)
is taken on the taxpayer's federal income tax return
under subsection (k) of Section 168 of the Internal
Revenue Code and for each applicable taxable year
thereafter, an amount equal to "x", where:
(1) "y" equals the amount of the depreciation
deduction taken for the taxable year on the
taxpayer's federal income tax return on property
for which the bonus depreciation deduction (30% of
the adjusted basis of the qualified property) was
taken in any year under subsection (k) of Section
168 of the Internal Revenue Code, but not including
the bonus depreciation deduction; and
(2) "x" equals "y" multiplied by 30 and then
divided by 70 (or "y" multiplied by 0.429).

The aggregate amount deducted under this
subparagraph in all taxable years for any one piece of
property may not exceed the amount of the bonus
depreciation deduction (30% of the adjusted basis of
the qualified property) taken on that property on the
taxpayer's federal income tax return under subsection
(k) of Section 168 of the Internal Revenue Code; and
(U) If the taxpayer reports a capital gain or loss
on the taxpayer's federal income tax return for the
taxable year based on a sale or transfer of property
for which the taxpayer was required in any taxable year
to make an addition modification under subparagraph
(E-10), then an amount equal to that addition
modification.
The taxpayer is allowed to take the deduction under
this subparagraph only once with respect to any one
piece of property.
(3) Special rule. For purposes of paragraph (2) (A),
"gross income" in the case of a life insurance company, for tax years ending on and after December 31, 1994, shall mean the gross investment income for the taxable year.

(c) Trusts and estates.

(1) In general. In the case of a trust or estate, base income means an amount equal to the taxpayer's taxable income for the taxable year as modified by paragraph (2).

(2) Modifications. Subject to the provisions of paragraph (3), the taxable income referred to in paragraph (1) shall be modified by adding thereto the sum of the following amounts:

(A) An amount equal to all amounts paid or accrued to the taxpayer as interest or dividends during the taxable year to the extent excluded from gross income in the computation of taxable income;

(B) In the case of (i) an estate, $600; (ii) a trust which, under its governing instrument, is required to distribute all of its income currently, $300; and (iii) any other trust, $100, but in each such case, only to the extent such amount was deducted in the computation of taxable income;

(C) An amount equal to the amount of tax imposed by this Act to the extent deducted from gross income in the computation of taxable income for the taxable year;

(D) The amount of any net operating loss deduction taken in arriving at taxable income, other than a net operating loss carried forward from a taxable year ending prior to December 31, 1986;

(E) For taxable years in which a net operating loss carryback or carryforward from a taxable year ending prior to December 31, 1986 is an element of taxable income under paragraph (1) of subsection (e) or subparagraph (E) of paragraph (2) of subsection (e), the amount by which addition modifications other than those provided by this subparagraph (E) exceeded subtraction modifications in such taxable year, with the following limitations applied in the order that they are listed:

(i) the addition modification relating to the net operating loss carried back or forward to the taxable year from any taxable year ending prior to December 31, 1986 shall be reduced by the amount of addition modification under this subparagraph (E) which related to that net operating loss and which was taken into account in calculating the base income of an earlier taxable year, and

(ii) the addition modification relating to the net operating loss carried back or forward to the
taxable year from any taxable year ending prior to December 31, 1986 shall not exceed the amount of such carryback or carryforward; For taxable years in which there is a net operating loss carryback or carryforward from more than one other taxable year ending prior to December 31, 1986, the addition modification provided in this subparagraph (E) shall be the sum of the amounts computed independently under the preceding provisions of this subparagraph (E) for each such taxable year; (F) For taxable years ending on or after January 1, 1989, an amount equal to the tax deducted pursuant to Section 164 of the Internal Revenue Code if the trust or estate is claiming the same tax for purposes of the Illinois foreign tax credit under Section 601 of this Act; (G) An amount equal to the amount of the capital gain deduction allowable under the Internal Revenue Code, to the extent deducted from gross income in the computation of taxable income; (G-5) For taxable years ending after December 31, 1997, an amount equal to any eligible remediation costs that the trust or estate deducted in computing adjusted gross income and for which the trust or estate claims a credit under subsection (i) of Section 201; (G-10) For taxable years 2001 and thereafter, an amount equal to the bonus depreciation deduction (30% of the adjusted basis of the qualified property) taken on the taxpayer's federal income tax return for the taxable year under subsection (k) of Section 168 of the Internal Revenue Code; and (G-11) If the taxpayer reports a capital gain or loss on the taxpayer's federal income tax return for the taxable year based on a sale or transfer of property for which the taxpayer was required in any taxable year to make an addition modification under subparagraph (G-10), then an amount equal to the aggregate amount of the deductions taken in all taxable years under subparagraph (R) with respect to that property. The taxpayer is required to make the addition modification under this subparagraph only once with respect to any one piece of property; and by deducting from the total so obtained the sum of the following amounts: (H) An amount equal to all amounts included in such total pursuant to the provisions of Sections 402(a), 
402(c), 403(a), 403(b), 406(a), 407(a) and 408 of the Internal Revenue Code or included in such total as distributions under the provisions of any retirement or disability plan for employees of any governmental agency or unit, or retirement payments to retired partners, which payments are excluded in computing net earnings from self employment by Section 1402 of the Internal Revenue Code and regulations adopted pursuant thereto;

(I) The valuation limitation amount;

(J) An amount equal to the amount of any tax imposed by this Act which was refunded to the taxpayer and included in such total for the taxable year;

(K) An amount equal to all amounts included in taxable income as modified by subparagraphs (A), (B), (C), (D), (E), (F) and (G) which are exempt from taxation by this State either by reason of its statutes or Constitution or by reason of the Constitution, treaties or statutes of the United States; provided that, in the case of any statute of this State that exempts income derived from bonds or other obligations from the tax imposed under this Act, the amount exempted shall be the interest net of bond premium amortization;

(L) With the exception of any amounts subtracted under subparagraph (K), an amount equal to the sum of all amounts disallowed as deductions by (i) Sections 171(a)(2) and 265(a)(2) of the Internal Revenue Code, as now or hereafter amended, and all amounts of expenses allocable to interest and disallowed as deductions by Section 265(1) of the Internal Revenue Code of 1954, as now or hereafter amended; and (ii) for taxable years ending on or after August 13, 1999, Sections 171(a)(2), 265, 280C, and 832(b)(5)(B)(i) of the Internal Revenue Code; the provisions of this subparagraph are exempt from the provisions of Section 250;

(M) An amount equal to those dividends included in such total which were paid by a corporation which conducts business operations in an Enterprise Zone or zones created under the Illinois Enterprise Zone Act and conducts substantially all of its operations in an Enterprise Zone or Zones;

(N) An amount equal to any contribution made to a job training project established pursuant to the Tax Increment Allocation Redevelopment Act;

(O) An amount equal to those dividends included in such total that were paid by a corporation that
conducts business operations in a federally designated Foreign Trade Zone or Sub-Zone and that is designated a High Impact Business located in Illinois; provided that dividends eligible for the deduction provided in subparagraph (M) of paragraph (2) of this subsection shall not be eligible for the deduction provided under this subparagraph (O);

(P) An amount equal to the amount of the deduction used to compute the federal income tax credit for restoration of substantial amounts held under claim of right for the taxable year pursuant to Section 1341 of the Internal Revenue Code of 1986;

(Q) For taxable year 1999 and thereafter, an amount equal to the amount of any (i) distributions, to the extent includible in gross income for federal income tax purposes, made to the taxpayer because of his or her status as a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime or as an heir of the victim and (ii) items of income, to the extent includible in gross income for federal income tax purposes, attributable to, derived from or in any way related to assets stolen from, hidden from, or otherwise lost to a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime immediately prior to, during, and immediately after World War II, including, but not limited to, interest on the proceeds receivable as insurance under policies issued to a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime by European insurance companies immediately prior to and during World War II; provided, however, this subtraction from federal adjusted gross income does not apply to assets acquired with such assets or with the proceeds from the sale of such assets; provided, further, this paragraph shall only apply to a taxpayer who was the first recipient of such assets after their recovery and who is a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime or as an heir of the victim. The amount of and the eligibility for any public assistance, benefit, or similar entitlement is not affected by the inclusion of items (i) and (ii) of this paragraph in gross income for federal income tax purposes. This paragraph is exempt from the provisions of Section 250;

(R) For taxable years 2001 and thereafter, for the taxable year in which the bonus depreciation deduction (30% of the adjusted basis of the qualified property)
is taken on the taxpayer's federal income tax return under subsection (k) of Section 168 of the Internal Revenue Code and for each applicable taxable year thereafter, an amount equal to "x", where:

(1) "y" equals the amount of the depreciation deduction taken for the taxable year on the taxpayer's federal income tax return on property for which the bonus depreciation deduction (30% of the adjusted basis of the qualified property) was taken in any year under subsection (k) of Section 168 of the Internal Revenue Code, but not including the bonus depreciation deduction; and

(2) "x" equals "y" multiplied by 30 and then divided by 70 (or "y" multiplied by 0.429).

The aggregate amount deducted under this subparagraph in all taxable years for any one piece of property may not exceed the amount of the bonus depreciation deduction (30% of the adjusted basis of the qualified property) taken on that property on the taxpayer's federal income tax return under subsection (k) of Section 168 of the Internal Revenue Code; and

(S) If the taxpayer reports a capital gain or loss on the taxpayer's federal income tax return for the taxable year based on a sale or transfer of property for which the taxpayer was required in any taxable year to make an addition modification under subparagraph (G-10), then an amount equal to that addition modification.

The taxpayer is allowed to take the deduction under this subparagraph only once with respect to any one piece of property.

(3) Limitation. The amount of any modification otherwise required under this subsection shall, under regulations prescribed by the Department, be adjusted by any amounts included therein which were properly paid, credited, or required to be distributed, or permanently set aside for charitable purposes pursuant to Internal Revenue Code Section 642(c) during the taxable year.

(d) Partnerships.

(1) In general. In the case of a partnership, base income means an amount equal to the taxpayer's taxable income for the taxable year as modified by paragraph (2).

(2) Modifications. The taxable income referred to in paragraph (1) shall be modified by adding thereto the sum of the following amounts:

(A) An amount equal to all amounts paid or accrued to the taxpayer as interest or dividends during the
taxable year to the extent excluded from gross income in the computation of taxable income;

(B) An amount equal to the amount of tax imposed by this Act to the extent deducted from gross income for the taxable year;

(C) The amount of deductions allowed to the partnership pursuant to Section 707 (c) of the Internal Revenue Code in calculating its taxable income;

(D) An amount equal to the amount of the capital gain deduction allowable under the Internal Revenue Code, to the extent deducted from gross income in the computation of taxable income;

(D-5) For taxable years 2001 and thereafter, an amount equal to the bonus depreciation deduction (30% of the adjusted basis of the qualified property) taken on the taxpayer's federal income tax return for the taxable year under subsection (k) of Section 168 of the Internal Revenue Code; and

(D-6) If the taxpayer reports a capital gain or loss on the taxpayer's federal income tax return for the taxable year based on a sale or transfer of property for which the taxpayer was required in any taxable year to make an addition modification under subparagraph (D-5), then an amount equal to the aggregate amount of the deductions taken in all taxable years under subparagraph (O) with respect to that property.

The taxpayer is required to make the addition modification under this subparagraph only once with respect to any one piece of property;

and by deducting from the total so obtained the following amounts:

(E) The valuation limitation amount;

(F) An amount equal to the amount of any tax imposed by this Act which was refunded to the taxpayer and included in such total for the taxable year;

(G) An amount equal to all amounts included in taxable income as modified by subparagraphs (A), (B), (C) and (D) which are exempt from taxation by this State either by reason of its statutes or Constitution or by reason of the Constitution, treaties or statutes of the United States; provided that, in the case of any statute of this State that exempts income derived from bonds or other obligations from the tax imposed under this Act, the amount exempted shall be the interest net of bond premium amortization;

(H) Any income of the partnership which constitutes personal service income as defined in
Section 1348 (b) (1) of the Internal Revenue Code (as in effect December 31, 1981) or a reasonable allowance for compensation paid or accrued for services rendered by partners to the partnership, whichever is greater;

(I) An amount equal to all amounts of income distributable to an entity subject to the Personal Property Tax Replacement Income Tax imposed by subsections (c) and (d) of Section 201 of this Act including amounts distributable to organizations exempt from federal income tax by reason of Section 501(a) of the Internal Revenue Code;

(J) With the exception of any amounts subtracted under subparagraph (G), an amount equal to the sum of all amounts disallowed as deductions by (i) Sections 171(a) (2), and 265(2) of the Internal Revenue Code of 1954, as now or hereafter amended, and all amounts of expenses allocable to interest and disallowed as deductions by Section 265(1) of the Internal Revenue Code, as now or hereafter amended; and (ii) for taxable years ending on or after August 13, 1999, Sections 171(a)(2), 265, 280C, and 832(b)(5)(B)(i) of the Internal Revenue Code; the provisions of this subparagraph are exempt from the provisions of Section 250;

(K) An amount equal to those dividends included in such total which were paid by a corporation which conducts business operations in an Enterprise Zone or zones created under the Illinois Enterprise Zone Act, enacted by the 82nd General Assembly, and conducts substantially all of its operations in an Enterprise Zone or Zones;

(L) An amount equal to any contribution made to a job training project established pursuant to the Real Property Tax Increment Allocation Redevelopment Act;

(M) An amount equal to those dividends included in such total that were paid by a corporation that conducts business operations in a federally designated Foreign Trade Zone or Sub-Zone and that is designated a High Impact Business located in Illinois; provided that dividends eligible for the deduction provided in subparagraph (K) of paragraph (2) of this subsection shall not be eligible for the deduction provided under this subparagraph (M);

(N) An amount equal to the amount of the deduction used to compute the federal income tax credit for restoration of substantial amounts held under claim of right for the taxable year pursuant to Section 1341 of the Internal Revenue Code of 1986;
(0) For taxable years 2001 and thereafter, for the taxable year in which the bonus depreciation deduction (30% of the adjusted basis of the qualified property) is taken on the taxpayer's federal income tax return under subsection (k) of Section 168 of the Internal Revenue Code and for each applicable taxable year thereafter, an amount equal to "x", where:

(1) "y" equals the amount of the depreciation deduction taken for the taxable year on the taxpayer's federal income tax return on property for which the bonus depreciation deduction (30% of the adjusted basis of the qualified property) was taken in any year under subsection (k) of Section 168 of the Internal Revenue Code, but not including the bonus depreciation deduction; and

(2) "x" equals "y" multiplied by 30 and then divided by 70 (or "y" multiplied by 0.429).

The aggregate amount deducted under this subparagraph in all taxable years for any one piece of property may not exceed the amount of the bonus depreciation deduction (30% of the adjusted basis of the qualified property) taken on that property on the taxpayer's federal income tax return under subsection (k) of Section 168 of the Internal Revenue Code; and

(P) If the taxpayer reports a capital gain or loss on the taxpayer's federal income tax return for the taxable year based on a sale or transfer of property for which the taxpayer was required in any taxable year to make an addition modification under subparagraph (D-5), then an amount equal to that addition modification.

The taxpayer is allowed to take the deduction under this subparagraph only once with respect to any one piece of property.

(e) Gross income; adjusted gross income; taxable income.

(1) In general. Subject to the provisions of paragraph (2) and subsection (b) (3), for purposes of this Section and Section 803(e), a taxpayer's gross income, adjusted gross income, or taxable income for the taxable year shall mean the amount of gross income, adjusted gross income or taxable income properly reportable for federal income tax purposes for the taxable year under the provisions of the Internal Revenue Code. Taxable income may be less than zero. However, for taxable years ending on or after December 31, 1986, net operating loss carryforwards from taxable years ending prior to December 31, 1986, may not exceed the sum of federal taxable income for the taxable
year before net operating loss deduction, plus the excess of addition modifications over subtraction modifications for the taxable year. For taxable years ending prior to December 31, 1986, taxable income may never be an amount in excess of the net operating loss for the taxable year as defined in subsections (c) and (d) of Section 172 of the Internal Revenue Code, provided that when taxable income of a corporation (other than a Subchapter S corporation), trust, or estate is less than zero and addition modifications, other than those provided by subparagraph (E) of paragraph (2) of subsection (b) for corporations or subparagraph (E) of paragraph (2) of subsection (c) for trusts and estates, exceed subtraction modifications, an addition modification must be made under those subparagraphs for any other taxable year to which the taxable income less than zero (net operating loss) is applied under Section 172 of the Internal Revenue Code or under subparagraph (E) of paragraph (2) of this subsection (e) applied in conjunction with Section 172 of the Internal Revenue Code.

(2) Special rule. For purposes of paragraph (1) of this subsection, the taxable income properly reportable for federal income tax purposes shall mean:

(A) Certain life insurance companies. In the case of a life insurance company subject to the tax imposed by Section 801 of the Internal Revenue Code, life insurance company taxable income, plus the amount of distribution from pre-1984 policyholder surplus accounts as calculated under Section 815a of the Internal Revenue Code;

(B) Certain other insurance companies. In the case of mutual insurance companies subject to the tax imposed by Section 831 of the Internal Revenue Code, insurance company taxable income;

(C) Regulated investment companies. In the case of a regulated investment company subject to the tax imposed by Section 852 of the Internal Revenue Code, investment company taxable income;

(D) Real estate investment trusts. In the case of a real estate investment trust subject to the tax imposed by Section 857 of the Internal Revenue Code, real estate investment trust taxable income;

(E) Consolidated corporations. In the case of a corporation which is a member of an affiliated group of corporations filing a consolidated income tax return for the taxable year for federal income tax purposes, taxable income determined as if such corporation had filed a separate return for federal income tax purposes.
for the taxable year and each preceding taxable year for which it was a member of an affiliated group. For purposes of this subparagraph, the taxpayer's separate taxable income shall be determined as if the election provided by Section 243(b) (2) of the Internal Revenue Code had been in effect for all such years;

(F) Cooperatives. In the case of a cooperative corporation or association, the taxable income of such organization determined in accordance with the provisions of Section 1381 through 1388 of the Internal Revenue Code;

(G) Subchapter S corporations. In the case of: (i) a Subchapter S corporation for which there is in effect an election for the taxable year under Section 1362 of the Internal Revenue Code, the taxable income of such corporation determined in accordance with Section 1363(b) of the Internal Revenue Code, except that taxable income shall take into account those items which are required by Section 1363(b)(1) of the Internal Revenue Code to be separately stated; and (ii) a Subchapter S corporation for which there is in effect a federal election to opt out of the provisions of the Subchapter S Revision Act of 1982 and have applied instead the prior federal Subchapter S rules as in effect on July 1, 1982, the taxable income of such corporation determined in accordance with the federal Subchapter S rules as in effect on July 1, 1982; and

(H) Partnerships. In the case of a partnership, taxable income determined in accordance with Section 703 of the Internal Revenue Code, except that taxable income shall take into account those items which are required by Section 703(a)(1) to be separately stated but which would be taken into account by an individual in calculating his taxable income.

(f) Valuation limitation amount.

(1) In general. The valuation limitation amount referred to in subsections (a) (2) (G), (c) (2) (I) and (d)(2) (E) is an amount equal to:

(A) The sum of the pre-August 1, 1969 appreciation amounts (to the extent consisting of gain reportable under the provisions of Section 1245 or 1250 of the Internal Revenue Code) for all property in respect of which such gain was reported for the taxable year; plus

(B) The lesser of (i) the sum of the pre-August 1, 1969 appreciation amounts (to the extent consisting of capital gain) for all property in respect of which such gain was reported for federal income tax purposes for the taxable year, or (ii) the net capital gain for the
taxable year, reduced in either case by any amount of such gain included in the amount determined under subsection (a) (2) (F) or (c) (2) (H).

(2) Pre-August 1, 1969 appreciation amount.

(A) If the fair market value of property referred to in paragraph (1) was readily ascertainable on August 1, 1969, the pre-August 1, 1969 appreciation amount for such property is the lesser of (i) the excess of such fair market value over the taxpayer's basis (for determining gain) for such property on that date (determined under the Internal Revenue Code as in effect on that date), or (ii) the total gain realized and reportable for federal income tax purposes in respect of the sale, exchange or other disposition of such property.

(B) If the fair market value of property referred to in paragraph (1) was not readily ascertainable on August 1, 1969, the pre-August 1, 1969 appreciation amount for such property is that amount which bears the same ratio to the total gain reported in respect of the property for federal income tax purposes for the taxable year, as the number of full calendar months in that part of the taxpayer's holding period for the property ending July 31, 1969 bears to the number of full calendar months in the taxpayer's entire holding period for the property.

(C) The Department shall prescribe such regulations as may be necessary to carry out the purposes of this paragraph.

(g) Double deductions. Unless specifically provided otherwise, nothing in this Section shall permit the same item to be deducted more than once.

(h) Legislative intention. Except as expressly provided by this Section there shall be no modifications or limitations on the amounts of income, gain, loss or deduction taken into account in determining gross income, adjusted gross income or taxable income for federal income tax purposes for the taxable year, or in the amount of such items entering into the computation of base income and net income under this Act for such taxable year, whether in respect of property values as of August 1, 1969 or otherwise.

(Source: P.A. 91-192, eff. 7-20-99; 91-205, eff. 7-20-99; 91-357, eff. 7-29-99; 91-541, eff. 8-13-99; 91-676, eff. 12-23-99; 91-845, eff. 6-22-00; 91-913, eff. 1-1-01; 92-16, eff. 6-28-01; 92-244, eff. 8-3-01; 92-439, eff. 8-17-01; 92-603, eff. 6-28-02; 92-626, eff. 7-11-02; 92-651, eff. 12-23-02.)
Section 15. The Baccalaureate Savings Act is amended by repealing Section 9.

Section 20. The Illinois Prepaid Tuition Act is amended by repealing Section 70.

Section 99. Effective date. This Act takes effect upon becoming law, except that Sections 5, 15, and 20 take effect on January 1, 2005.
Appendix B – Bright Start Cost Proposal Form

Proposer: ____________________________________________________________

Please complete any applicable portions of this form. All costs and fees must be included. The Treasurer reserves the right to collect a fee from participants in the event that the Treasurer provides any services to the participants.

Please note: the proposer shall not be permitted to charge any fees other those indicated on this form to the Treasurer or the account owner.

A. Banking Services

1. Please complete the attached pricing schedule. (The applicable schedule is attached hereto in an Excel spreadsheet file.)

2. List any other applicable costs and fees for the Banking Services proposed.

B. Recordkeeping and Customer Service

1. List all applicable costs and fees for the Recordkeeping and Customer Service proposed. Please propose two separate prices: one comprised of an account maintenance fee and one expressed as a percentage of assets.

C. Investment Management and Custodial Service

1. Please provide a detailed description of all investment management fees, including any management fees, 12(b)(1) fees and any other fees. Please provide the basis for your cost proposal, including projections for growth of assets. Explain any proposed reductions in fees if the assets exceed your projections. Please provide the information in a format consistent with the College Savings Plan Network Voluntary Disclosures Principles.

2. Please list and provide an explanation for any other anticipated expenses or fees related to Investment Management or Custodial Services that have not been addressed above.
D. Marketing Services

1. List all applicable costs and fees for the Marketing Services proposed.

E. Legal Services

1. List all applicable costs and fees for the Legal Services proposed.

2. When performing similar services for multiple clients, please describe how expenses are allocated to each client.

F. Miscellaneous

1. List any other proposed costs or fees associated with providing your proposed services that have not been outlined above.

2. In the event that your cost proposal includes multiple service areas, please explain any reductions in fees should you be chosen to provide multiple services.
APPENDIX C

STATE CERTIFICATIONS

______________________________________________  
("CONTRACTOR") makes

the following certifications:

1.0 ANTI-BRIBERY.

CONTRACTOR certifies that it is not barred from being awarded a contract or subcontract under Section 1400.5010 of the Treasurer’s Procurement Rules (44 Ill. Adm. Code 1400.5010).

2.0 BID-RIGGING/BID-ROTATING.

CONTRACTOR certifies that it has not been barred from contracting with a unit of State or local government as a result of a violation of Section 33E-3 or 33E-4 of the Criminal Code of 1961 (720 ILCS 5/33E-3, 33E-4).

3.0 DRUG FREE WORKPLACE.

This certification is required by Section 3 of the Drug Free Workplace Act (30 ILCS 580/3). The Drug Free Workplace Act, effective January 1, 1992, requires that CONTRACTOR shall not be considered for the purposes of being awarded a contract for the procurement of any services from the State unless CONTRACTOR has certified to the State that CONTRACTOR will provide a drug free workplace. False certification or violation of the certification may result in sanctions including, but not limited to, suspension of contract payments, termination of the contract and debarment of contracting opportunities with the State for at least one (1) year but not more than five (5) years.

CONTRACTOR certifies and agrees that it will provide a drug free workplace by:

a. Publishing a statement:
   i. Notifying employees that the unlawful manufacture, distribution, dispensation, possession or use of a controlled substance, including cannabis, is prohibited in the grantee’s or contractor’s workplace.
   ii. Specifying the actions that will be taken against employees for violation of such prohibition.
   iii. Notifying the employee that, as a condition of employment on such contract or grant, the employee will:
      a. abide by the terms of the statement; and
      b. notify the employer of any criminal drug statute conviction for a violation occurring in the workplace no later than five (5) days after such conviction.

b. Establishing a drug free awareness program to inform employees about:
i. the dangers of drug abuse in the workplace;
ii. CONTRACTOR’s policy of maintaining a drug free workplace;
iii. any available drug counseling, rehabilitation, and employee assistance programs; and
iv. the penalties that may be imposed upon an employee for drug violations.
c. Providing a copy of the statement required by Section (a) to each employee engaging in the performance of the contract or grant and to post the statement in a prominent place in the workplace.
d. Notifying the Treasurer’s Office within ten (10) days after receiving notice under part (b) of paragraph (iii) of Section (a) above from an employee or otherwise receiving actual notice of such conviction.
e. Imposing a sanction on, or requiring the satisfactory participation in drug abuse assistance or rehabilitation program by, an employee who is so convicted, as required by Section 5 of the Drug Free Workplace Act.
f. Assisting employees in selecting a course of action in the event of drug counseling, treatment, and rehabilitation is required and indicating that a trained referral team is in place.
g. Making a good faith effort to continue to maintain a drug free workplace through implementation of the Drug Free Workplace Act.

4.0 U.S. EXPORT ACT.

CONTRACTOR certifies that neither CONTRACTOR nor any substantial-owned affiliated company is participating or shall participate in an international boycott in violation of the provisions of the U.S. Export Administration Act of 1979 (50 U.S.C.A. App. § 2401 et seq.) or the regulations of the U.S. Department of Commerce promulgated under that Act.

5.0 NON-DISCRIMINATION.

CONTRACTOR certifies that it is in compliance with the State and Federal Constitutions, the U.S. Civil Rights Act, Section 504 of the Federal Rehabilitation Act, and all applicable rules that prohibit unlawful discrimination in performance of this Agreement and all other activities, including employment and other contracts. As a condition of receiving the Agreement, CONTRACTOR represents or certifies that services, programs and activities provided under the Agreement are and will continue to be in compliance with State and Federal Constitutions, the U.S. Civil Rights Act, Section 504 of the Federal Rehabilitation Act, and all applicable laws that prohibit unlawful discrimination.

6.0 AMERICANS WITH DISABILITIES ACT.

CONTRACTOR certifies that it is in compliance with the Americans with Disabilities Act (“ADA”) (42 U.S.C. 12101 et seq.) and the regulations thereunder (28 CFR 35.130) prohibit discrimination against persons with disabilities by the Treasurer, whether directly or through contractual arrangements, in the provision of any
aid, benefit or service. As a condition of receiving the Agreement, CONTRACTOR represents or certifies that services, programs and activities provided under the Agreement are and will continue to be in compliance with the ADA.

7.0 **ILLINOIS HUMAN RIGHTS ACT.**

CONTRACTOR certifies that it is presently in compliance with all of the terms, conditions and provisions of Section 5/2-105 of the Illinois Human Rights Act (775 ILCS 5/2-105), together with all rules and regulations promulgated and adopted pursuant thereto.

8.0 **FELONY.**

CONTRACTOR certifies that it has not been barred from being awarded a contract under Section 1400.5015 of the Treasurer’s Procurement Rules (44 Ill. Adm. Code 1400.5015).

9.0 **FORMER EMPLOYMENT.**

CONTRACTOR has informed the Treasurer’s Office in writing if CONTRACTOR was formerly employed by the Treasurer’s Office and has received an early retirement incentive under Section 14-108.3 or 16-133.3 of the Illinois Pension Code (30 ILCS 105/15a).

10.0 **INDUCEMENT.**

CONTRACTOR has not paid any money or valuable thing to induce any person to refrain from bidding on a State contract, nor has CONTRACTOR accepted any money or other valuable thing, or acted upon the promise of same, for not bidding on a State contract (30 ILCS 500/50-25).

11.0 **REVOLVING DOOR PROHIBITION.**

CONTRACTOR certifies neither it or its employees and agents are in violation of the “Revolving Door” section of the Illinois Procurement Code (30 ILCS 500/50-30), which prohibits certain officers and their designees from engaging in procurement activities for a certain time period.

12.0 **REPORTING ANTICOMPETITIVE PRACTICES.**

CONTRACTOR shall report to the Illinois Attorney General and the Chief Procurement Officer any suspected collusion or other anticompetitive practice among any bidders, offerors, contractors, proposers or employees of the State (30 ILCS 500/50-40, /50-45, /50-50).
13.0 **DISCRIMINATORY CLUB.**

CONTRACTOR agrees not to pay any dues or fees on behalf of its employees or agents or subsidize or otherwise reimburse them for payments of any dues or fees to a discriminating club as prohibited by Section 2 of the Discriminatory Club Act (775 ILCS 25/2).

14.0 **TAXPAYER IDENTIFICATION NUMBER AND LEGAL STATUS OF CONTRACTOR.**

CONTRACTOR shall be in compliance with applicable tax requirements and shall be current payment of such taxes. Under penalty of perjury, CONTRACTOR certifies that #___________ is its correct Taxpayer Identification Number and that it is doing business as a (please check one):

- [ ] Individual
- [ ] Partnership
- [ ] Corporation
- [ ] Sole Proprietorship
- [ ] Not-for-Profit Corporation
- [ ] Real Estate Agent
- [ ] Government Entity
- [ ] Trust or Estate
- [ ] Tax Exempt Organization (IRS 501 as (a) only)
- [ ] Medical and Health Care Services Provider

15.0 **LICENSE.**

CONTRACTOR, directly or through its employees, shall have and maintain any license required by this Agreement.

16.0 **APPROPRIATION.**

This Agreement is subject to termination and cancellation in any year for which the General Assembly fails to make an appropriation to make payments under the terms of the contract.

17.0 **RECORDS RETENTION.**

CONTRACTOR shall maintain, for as a minimum of three (3) years after the termination of this Agreement, adequate books, records, and supporting documents to verify the amounts, recipients, and uses of all disbursements of funds passing in conjunction with this Agreement; this Agreement and all books, records, and supporting documents related to this Agreement shall be available for review and audit by the Auditor General and the Treasurer; CONTRACTOR agrees to cooperate fully with any audit conducted by the Auditor General or the Treasurer and to provide full access to all relevant materials. The three-(3)-year period shall be extended for the duration of any audit in progress during the term. Failure to maintain the books, records and supporting documents required by this Section shall establish a presumption in favor of the State for the recovery of any funds paid by the State under this Agreement for which adequate
books, records, and supporting documentation are not available to support their purported disbursement.

18.0 CONFLICTS OF INTEREST.

CONTRACTOR has disclosed, and agrees that it is under a continuing obligation to disclose to the Treasurer financial or other interests (public or private, direct or indirect) that may be a potential conflict of interest that would prohibit CONTRACTOR from having or continuing the Agreement. Conflicts of interest include, but are not limited to, conflicts under Section 1400.5020 of the Treasurer’s Procurement Rules (44 Ill. Adm. Code 1400.5020) and Section 50-30 of the Illinois Procurement Code (30 ILCS 500/50).

19.0 LATE PAYMENTS.

Late payment charges, if any, shall not exceed the formula established in the Illinois Prompt Payment Act (30 ILCS 540/1) and the Illinois Administrative Code (74 Ill. Adm. Code 900).

20.0 LIABILITY.

The State’s liability for damages is expressly limited by and subject to the provisions of the Illinois Court of Claims Act (705 ILCS 505/1) and to the availability of suitable appropriations.

21.0 DEBT DELINQUENCY.

CONTRACTOR certifies that it is not barred from being awarded a contract under the Illinois Procurement Code (30 ILCS 500). Section 50-11 of the Illinois Procurement Code prohibits a person from entering into a contract with the Treasurer’s Office if it knows or should know that it, or any affiliate, is delinquent in the payment of any debt to the State as defined by the Debt Collection Board. Section 50-12 of the Illinois Procurement Code prohibits a person from entering into a contract with a State agency if it, or any affiliate, has failed to collect and remit Illinois Use Tax on all sales of tangible personal property into the State of Illinois in accordance with the provisions of the Illinois Use Tax Act. CONTRACTOR further acknowledges that the Treasurer’s Office may declare the Agreement void if this certification is false or if CONTRACTOR or any affiliate is determined to be delinquent in payment of any debt during the term of the Agreement.

22.0 EDUCATIONAL LOAN DEFAULT.
CONTRACTOR certifies that it is not barred from being awarded a contract under the Educational Loan Default Act (5 ILCS 385). Section 3 of the Educational Loan Default Act prohibits an individual from entering into a contract with the Treasurer’s Office if that individual is in default of an educational loan. CONTRACTOR further acknowledges that the Treasurer’s Office may declare the Agreement void if this certification is false or if CONTRACTOR is determined to be in default of an educational loan during the term of the Agreement.

23.0 FORCE MAJEURE.

Failure by either party to perform its duties and obligations shall be excused by unforeseeable circumstances beyond its reasonable control, including acts of nature, acts of the public enemy, riots, labor or material shortages, labor disputes, fire, flood, explosion, legislation, and governmental regulation.

24.0 ANTITRUST ASSIGNMENT.

CONTRACTOR hereby assigns, sells and transfers to the State of Illinois all right, title and interest in and to any claims and causes of action arising under antitrust laws of Illinois or the United States relating to the subject matter of the Agreement.

25.0 PROHIBITION OF GOODS FROM FORCED LABOR.

CONTRACTOR certifies that it is not barred from being awarded a contract under the State Prohibition of Goods from Forced Labor Act (30 ILCS 583). Section 10 of the State Prohibition of Goods from Forced Labor Act prohibits a contractor from entering into a contract with the Treasurer’s Office if that contractor knew that the foreign-made equipment, materials, or supplies furnished to the State were produced in whole or part by forced labor, convict labor, or indentured labor under penal sanction. CONTRACTOR further acknowledges that the Treasurer’s Office may declare the Agreement void if this certification is false or if CONTRACTOR is determined to have known that the foreign-made equipment, materials, or supplies furnished to the State during the term of the Agreement were produced in whole or part by forced labor, convict labor, or indentured labor under penal sanction.

26.0 PROHIBITION OF GOODS FROM CHILD LABOR.

CONTRACTOR certifies in accordance with Public Act 94-0264 that no foreign-made equipment, materials, or supplies furnished to the State under the contract have been produced in whole or in part by the labor of any child under the age of 12.

27.0 SARBANES-OXLEY ACT AND ILLINOIS SECURITIES LAW.

CONTRACTOR certifies that it is not barred from being awarded a contract
under the Illinois Procurement Code (30 ILCS 500). Section 50-10.5 of the Illinois Procurement Code prohibits a business from bidding or entering into a contract with the Treasurer’s Office if the business or any officer, director, partner, or other managerial agent of the business has been convicted of a felony under the Sarbanes-Oxley Act of 2002 or a Class 3 or Class 2 felony under the Illinois Securities Law of 1953 for a period of five (5) years from the date of conviction. CONTRACTOR further acknowledges that the Treasurer’s Office may declare the Agreement void if this certification is false or if CONTRACTOR or any officer, director, partner, or other managerial agent of CONTRACTOR is determined to have been convicted of a felony under the Sarbanes-Oxley Act of 2002 or a Class 3 or Class 2 felony under the Illinois Securities Law of 1953 during the term of the Agreement.

28.0 DISPUTES.

Any claim against the State arising out of this Agreement must be filed exclusively with the Illinois Court of Claims (705 ILCS 505/1). The State shall not enter into binding arbitration to resolve any Agreement dispute. The State of Illinois does not waive sovereign immunity by entering into this Agreement. Any provision containing a citation to an Illinois statute (cited “ILCS”) may not contain the complete statutory language. The official text, which is incorporated by reference, may be found in the appropriate chapter and section of the Illinois Compiled Statutes. An unofficial version may be viewed at www.legis.state.il.us.

29.0 THIRD-PARTY PAYMENTS.

CONTRACTOR certifies that no fee was paid to a third-party in expectation of being awarded a contract by the Treasurer.

30.0 MOST FAVORABLE TERMS.

If more favorable terms are granted by the CONTRACTOR to any similar governmental agency in any state in a contemporaneous agreement let under the same or similar financial terms and circumstances for comparable supplies or services, the more favorable terms will be applicable under the Agreement between the Treasurer’s Office and the CONTRACTOR.

Contractor: ____________________________________________

Printed Name: -

Date: ____________________________________________

Phone Number: ______________________________________

Title: ____________________________________________

Signature: ________________________________________

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APPENDIX D

DISCLOSURES
FINANCIAL INTEREST AND POTENTIAL CONFLICTS OF INTEREST
(Disclosure Form A)

The Treasurer’s Procurement Regulations (44 Ill. Adm. Code 1400.5035) require that contractors/offerors desiring to enter into certain contracts with the State of Illinois must disclose the financial and potential conflicts of interest information as specified below.

Contractor/offeror shall disclose the financial interest and potential conflicts of interest information identified in Sections 1 and 2 below as a condition of receiving an award or contract. Submit this information along with your bid, proposal or offer.

This requirement applies to contracts with an annual value exceeding $10,000.

A publicly traded entity may submit its 10K disclosure in satisfaction of the disclosure requirements set forth in both Sections 1 and 2 below.

Sec. 1. Disclosure of Financial Interest in the Contractor/Offeror

a. If any individuals have one of the following financial interests in the contractor/offeror (or its parent), please check all that apply and show their name and address:

   Ownership exceeding 5% (____)
   Ownership value exceeding $90,414.60 (____)
   Distributive Income Share exceeding 5% (____)
   Distributive Income Share exceeding $90,414.60 (____)

   Name: ____________________________________________________
   Address: __________________________________________________

b. For each individual named above, show the type of ownership/distributable income share: sole proprietorship _____ stock _____ partnership _____ other (explain) __________________________________________.

c. For each individual named above, show the dollar value or proportionate share of the ownership interest in the contractor/offeror (or its parent) as follows:

   If the proportionate share of the named individual(s) in the ownership of the contractor/offeror (or its parent) is 5% or less, and if the value of the ownership interest of the named individual(s) is $90,414.60 or less, check here (____)
If the proportionate share of ownership exceeds 5% or the value of the ownership interest exceeds $90,414.60, show either.

The percent of ownership

or

The value of the ownership interest

Sec. 2. Disclosure of Potential Conflicts of Interest. For each of the individuals having the level of financial interest identified in Section 1 above, check “Yes” or “No” to indicate which, if any, of the following potential conflicts of interest relationships apply. If “Yes,” please describe (use space under applicable section to explain your answers – attach additional pages as necessary).

a. State employment, currently or in the previous 3 years, including contractual employment of services

b. State employment for spouse, father, mother, son, or daughter, including contractual employment for services in the previous 2 years.

c. Elective status; the holding of elective office of the State of Illinois, the government of the United States, any unit of local government authorized by the Constitution of the State of Illinois, or the statutes of the State of Illinois currently or in the previous 3 years.

d. Relationship to anyone holding elective office currently or in the previous 2 years; spouse, father, mother, son, or daughter.

e. Appointive office; the holding of any appointive government office of the State of Illinois, the United States of America, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois, which office entitles the holder to compensation in excess of expenses incurred in the discharge of that office currently or in the previous 3 years.

f. Relationship to anyone holding appointive office currently or in the previous 2 years; spouse, father, mother, son, or daughter.

g. Employment, currently or in the previous 3 years, as or by any registered lobbyist of the State government.

h. Relationship to anyone who is or was a registered lobbyist in the previous 2 years; spouse, father, mother, son, or daughter.
i. Compensated employment, currently or in the previous 3 years, by any registered election or re-election committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee with either the Secretary of State or the Federal Board of Elections.  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
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<tbody>
<tr>
<td>_____</td>
<td>_____</td>
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</table>

j. Relationship to anyone; spouse, father, mother, son, or daughter, who is or was a compensated employee in the last 2 years of any registered election or re-election committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections.  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
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<tbody>
<tr>
<td>_____</td>
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</table>

This disclosure is submitted on behalf of  

_______________________________________________  

(Name of Contractor/Offeror)  

Official authorized to sign on behalf of contractor/offeror:  

Name (printed) ________________________________  

Title ________________________________  

Signature ________________________________  

Date ________________________________
APPENDIX E
DISCLOSURES
OTHER CONTRACT AND PROCUREMENT RELATED INFORMATION
(Disclosure Form B)

The Treasurer’s Procurement Regulations (44 Ill. Adm. Code 1400.5035) require that contractors/offerors desiring to enter into certain contracts with the State of Illinois must disclose the information as specified below.

Contractor/offeror shall disclose the information identified below as a condition of receiving an award or contract.

This requirement is applicable to only those contracts with an annual value exceeding $10,000.

You must submit this information along with your bid, proposal or offer.

a. Contractor/offeror shall identify whether it has current contracts (including leases) with other units of State of Illinois government by checking “Yes” _____ or “No” _____.

If “Yes” is checked, identify each contract by showing agency name and other descriptive information such as purchase order or contract reference number (attach additional pages as necessary).

b. Contractor/offeror shall identify whether it has pending contracts (including leases), bids, proposals, or other ongoing procurement relationships with other units of State of Illinois government by checking “Yes” _____ or “No” _____.

If “Yes” is checked, identify each such relationship by showing agency name and other descriptive information such as bid or project number (attach additional pages as necessary).

This disclosure is submitted on behalf of ____________________________________________

(Name of Contractor/Offeror)

Official authorized to sign on behalf of contractor/offeror:

Name (printed) ____________________________________ Title _______________________

Signature ________________________________________ Date_______________________
APPENDIX F

Bright Start™ College Savings Pool Investment Policy Statement

I. Statement of Purpose of Investment Policy

The purpose of this Statement is to assist contractors retained by the Treasurer to provide services related to the management of the assets of the Bright Start™ College Savings Pool (the “Pool”) and to assist the Treasurer’s Office in evaluating the performance of such contractors by:

- Describing the Treasurer’s investment objectives;
- Providing general guidelines for the investment of assets of the Pool;
- Describing the Treasurer’s long-term investment strategy;
- Describing the process of evaluating the performance of contractors that provide investment management services to the Pool; and
- Specifying the responsibilities of any contractors that provide investment management services to the Pool.

This is the official Investment Policy Statement of the Pool. Deviation from this Policy is not permitted without prior, explicit, written permission from the Treasurer.

II. Establishment and Authority of Entity

The Pool has been established as a “qualified tuition program” in accordance with Section 529 of the Internal Revenue Code of 1986, as amended. It was established to provide families with a new opportunity to invest toward future college education expenses.

III. Participating Financial Institutions

Any financial institution insured by the Federal Deposit Insurance Corporation and all credit unions, lawfully doing business in the State, may participate in the Pool to the extent permitted by applicable law.

IV. Investment Philosophy

The Treasurer has adopted a long-term total return strategy regarding the Pool and its investments. In order to achieve the Pool’s objectives, investments shall be diversified so as to minimize the risk of loss. While some asset classes may experience short-term and intermediate-term volatility, their long-term return assumptions justify their inclusion. A long-term focus on investment results as well as prudent diversification across public security markets will be the primary risk control mechanisms.

In its investment strategy, the Treasurer has relied on prevailing financial theory, which currently utilizes a long-term diversified asset allocation strategy. A prudently allocated investment program possesses a significant level of diversification, which produces risk reduction. In terms of impact, diversification shall be considered along the following lines: (1) asset classes (stocks, bonds, cash, etc.), (2) geography/country, (3) industry, and (4) maturity.
Contributions to the Pool will be directed to one of seventeen underlying portfolios (the “Underlying Portfolios”), each with a designated mix of investments. The determination of the investment parameters of each Underlying Portfolio shall be made by the Treasurer and shall take into account the financial characteristics of the investments in the Pool. The investment parameters will also give due consideration to the fact that the investment horizon for participants will vary from a few months to over 18 years.

The Treasurer will review the investment performance of each Underlying Portfolio at least quarterly and shall review this Investment Policy Statement at least annually.

The holdings of the Pool and the Underlying Portfolios are divided into the following broad asset categories:

A. Short-term Investments
B. Fixed-Income Securities
C. Large Capitalization U.S. Stocks
D. Small Capitalization U.S. Stocks
E. International Stocks

The Treasurer will establish reasonable guidelines for each Underlying Portfolio, specifying (as applicable) limits on asset and asset class exposures. While the investment parameters offered under the Pool are developed by the Treasurer, participants bear the risk of investment results. Individual participants who seek investments materially different from those offered may wish to select an investment alternative outside of the Pool.

The administration and offering of the Pool should not be relied upon as a guarantee to participants. Each participant should seek appropriate advice as he or she deems necessary.

V. Investment Objectives

The overall investment program for the Pool and, as applicable, the individual Underlying Portfolios provided to the participants shall seek to achieve the following long-term investment objectives:

A. A long-term competitive rate of return on investments that is equal to or exceeds a return of the applicable benchmarks shown in Section VII hereof.

B. An investment program flexible enough to meet the needs of participants based upon their age or investment objective or the age of the beneficiary and which provides each individual with the ability to invest in a diversified portfolio to meet his or her long-term investment goals.

VI. Investment Responsibilities

The Treasurer is responsible for the investment policy, the direction of investments and administration of the assets of the Pool. In order to properly carry out her responsibilities, the
Treasurer may rely on one or more contractors to assist in the administration of the Pool. The Treasurer has engaged, and plans to rely heavily on Salomon Smith Barney Inc. (“SSB”) for various investment management and administrative services. Among the current responsibilities of SSB is the implementation of the investment strategy outlined in this Policy and the rebalancing of the Underlying Portfolios when market movement and/or cash flows cause an asset class to be outside its policy allocation bands. The Treasurer's Office and SSB shall meet quarterly to review portfolio performance as compared to the applicable benchmarks and peer group performance.

In managing the investments of the College Savings Pool and the Underlying Portfolios, SSB agrees that it will act with the skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like objectives.

VII. Investment Parameters

Contributions will be invested in one of seventeen Underlying Portfolios, each with a designated mix of investments which is appropriate for the age of the participant or the investment objective of the Portfolio. Each Underlying Portfolio allocates assets in a combination of mutual funds investing in large capitalization U.S. stocks, small capitalization U.S. stocks, international stocks, fixed-income and short-term investments. The asset allocation of each Underlying Portfolio will be established by the Treasurer and managed by SSB. The Treasurer may adjust the weighting in stocks, bonds and cash in each Underlying Portfolio and may change the mutual funds within the Underlying Portfolios consistent with this Investment Policy Statement and its agreement with the Manager.

The policy target asset allocations and benchmarks for the mutual funds within the Underlying Portfolios are shown below. There is a permissible range of plus or minus 5% around the target allocation for each mutual fund.

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<th>Age Based Portfolios -- Bank Accepts Deposits</th>
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<tbody>
<tr>
<td>Benchmark</td>
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<td>Large Cap Value</td>
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<td>Small Cap Blend</td>
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### Age Based Portfolios -- Bank Rejects Deposits

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<td>#3 (10-11)</td>
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### Fixed Income Portfolio

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<tr>
<td>Large Cap Growth</td>
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</tr>
<tr>
<td>Small Cap Blend</td>
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<td>International Equity</td>
<td>MSCI EAFE</td>
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<tr>
<td>Investment Grade Bond</td>
<td>Citigroup Corp 10+ yr</td>
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<td>US Government</td>
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<td>Securities</td>
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<tr>
<td>Grade Bond</td>
<td>Core Plus Bond</td>
<td>Lehman Aggregate</td>
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<tr>
<td>Bank Deposits</td>
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<td>50%</td>
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Each mutual fund’s return objective is to equal or exceed, over a three-year rolling period, the return of the applicable benchmark. Volatility, measured by the standard deviation of quarterly returns over that period, is expected to be similar to the benchmark. Each mutual fund is also expected to perform favorably relative to its peer group.

To the extent that the assets of an Underlying Portfolio are invested in one or more mutual funds approved by the Treasurer having investment objectives consistent with the above-noted asset
allocation categories, the above-noted percentage guidelines shall be deemed satisfied. This shall be the case even if such a mutual fund’s underlying assets may not be entirely invested in the asset class in which such fund has been placed.

Principal Protection Income Option Portfolio

The Principal Protection Income Option Portfolio is a separate underlying portfolio managed primarily as a diversified portfolio of investment grade readily marketable U.S. government securities, foreign government securities, corporate fixed-income securities, mortgage related securities and asset-backed securities of domestic and foreign issuers, that attempts to reduce significantly under normal circumstances fluctuations in the value of its assets, other than money market securities and money market fund securities, by entering into one or more contracts (known as “Wrapper Agreements”), each with a financial institution such as an insurance company or a bank whose long-term credit rating is in the highest two categories as determined by Standard and Poor’s and Moody’s. A Wrapper Agreement enables the Principal Protection Income Option Portfolio, regardless of market fluctuations, to value the assets of the Portfolio covered by the Wrapper Agreement at their book value. The Principal Protection Income Option Portfolio may invest in interest only or principal only securities, long and short positions in exchange-traded futures, exchange-traded options (i.e. puts and calls) on futures, and the writing of covered calls on exchange-traded futures, for the express purpose of managing Portfolio interest rate risk.

A portion of each Underlying Portfolio may be invested in repurchase agreements, shares of a money market mutual fund, Bank Deposits or other money market instruments and accounts to provide flexibility in meeting redemptions, expenses and the timing of new investments.

VIII. Investments in the Bank Deposit Pool

A. Investment Objective of Bank Deposit Pool.

The Bank Deposit Pool shall consist of three separate sub-pools: longer-term, medium-term and short-term. All sub-pools shall maintain liquidity reserves, consistent with the projected liquidity needs of the Bank Deposit Pool, which may hinder the attainment of other investment goals. Each sub-pool will have additional investment objectives. The achievement of these objectives is contingent upon the availability of Time Deposits or Certificates of Deposit ("CDs" or "CD") throughout the yield curve. The longer-term sub-pool shall seek to provide a return competitive with Certificates of Deposit with an average maturity of 6 to 10 years. The medium-term sub-pool shall seek to provide a return competitive with Certificates of Deposit with an average maturity of 4 to 6 years. The short-term sub-pool shall seek current income. The investment objectives are subject to the requirements and limitations set forth in and imposed by Illinois Public Act 91–0607.
B. SSB as Manager of Bank Deposit Pool

The Manager will be responsible for managing the assets in the Bank Deposit Pool in accordance with the Bank Deposit Pool's investment objective and subject to the requirements and limitations set forth in and imposed by Illinois Public Act 91-0607.

C. Investment Pending Bank Investment Dates

SSB shall establish at least two annual Bank Investment Dates to enable SSB to ensure that at least once each year each participating financial institution will receive the amount of deposits that it is entitled to receive under Illinois Public Act 91-0607. SSB shall invest assets held in the Bank Deposit Pool pending the Bank Investment Dates, with a particular emphasis on providing for the liquidity needs of the Bank Deposit Pool (satisfy redemptions, pay fees, etc.).

All contributions to the Bank Deposit Pool received prior to the Bank Investment Dates shall be invested by SSB in deposits at one or more of the financial institutions designated in writing by the Treasurer's Office ("Designated Banks") with a maturity date that falls on or before the applicable Bank Investment Date.

All contributions to the Bank Deposit Pool received prior to the Bank Investment Date shall be invested by SSB taking into consideration the interest rates offered by Designated Banks on instruments having a maturity of up to one year and The Manager's judgment and assessment of current and future interest rate environment.

Once purchased, all CDs will be held to maturity (subject to early termination to satisfy liquidity needs of Bank Deposit Pool). Upon maturity of a CD, SSB will be responsible for investing proceeds received upon maturity and prior to the applicable Bank Investment Date(s).

D. Investment at Bank Investment Dates

The Manager will seek to construct a portfolio designed to meet the Bank Deposit Pool's investment objective (see above) and that takes into account the requirements of the Act, including the annual rebalancing.

The Manager will be responsible for ensuring that the amount invested in deposits will be adjusted on at least an annual basis to provide each participating financial institution with the amount of deposits required by the Act.

The portfolios will be constructed by SSB taking into consideration the interest rates offered by the relevant institutions on various types of deposits, the amount to be invested in deposits at each institution, the liquidity needs of the portfolios to provide for withdrawals and the required readjustment of deposits among financial institutions, the ages of the beneficiaries of the account in each portfolio and the projected dates on which such accounts will be transferred from one account to another, and SSB's judgment and assessment of the current and future interest rate environment.

On Bank Investment Dates or upon maturity of CDs, SSB will exercise judgment on the current and future interest rate environment when it purchases CDs. However, once purchased, all CDs will be held to maturity (subject to early termination to satisfy liquidity needs of the Bank Deposit Pool).
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NOTE: If specific services are not to be included in this pricing, such items and the associated cost must be indicated and clearly identified.