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UESP is a Section 529 Plan administered and managed by the Utah State Board of Regents and the Utah Higher Education Assistance Authority (UHEAA).

Investors should read the Program Description and consider all investment objectives, risks, charges, and expenses before investing. The Program Description is available on the web at www.uesp.org or by calling 1.800.418.2551.

You could lose the money you invest in UESP. Investments are not guaranteed by UESP, the Board of Regents, UHEAA, the FDIC, or any other state or federal government agency.

The current law that allows tax-free withdrawals for qualified higher education expenses will expire after December 31, 2010 unless Congress extends the exemption beyond this date.

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Policy Updates

This month an updated Program Description will be available at www.uesp.org. UESP will also mail a copy to you. Here are some of the highlights.

Dividend Allocations Change for PTIF and Bonds

Beginning in 2006, UESP will simplify the way that it allocates dividends to each account that has a balance corresponding to UESP's underlying investments in the Utah Public Treasurers Investment Fund (PTIF) and The Vanguard Institutional Total Bond Market Index Fund. UESP will allocate any dividends it receives to UESP accounts with those underlying investments on an allocation date. Each account will receive the dividends of the underlying investment in the form of units. The dividends will be based on the proportion of units owned by the account owner as compared to the total number of units owned by all account owners on that date. The allocation date in most cases will be the business day after UESP receives the dividend.

Secondary Successor

UESP now provides a place on the Account Agreement, Form 100, to designate a secondary successor account owner. This person would take control of the account in the case of the death or incapacity of both the account owner and primary successor account owner, or if the primary successor declines to become the account owner.

Transfers to or Changes in Beneficiaries Who are Not Members of the Family

If you wish to do either one of the following, you will need to submit a Disbursement Request Form, Form 300:

1. Change your beneficiary to someone who is **not** a member of the family of the current beneficiary.

2. Transfer money to a beneficiary who is **not** a member of the family of the current beneficiary.

See the Program Description, Glossary of Terms for a definition of "member of the family."

These types of changes will not be allowed on the Beneficiary Change Form or the Internal Transfer Form since the IRS views such changes as non-qualified disbursements. So, to move your UESP account money to a beneficiary who is not a member of the family, you will need to submit a Disbursement Request Form. Any gains associated with the disbursement will be subject to federal and state income tax, the additional 10 percent federal penalty tax, and recapture of any Utah state income tax deduction previously claimed.

Consult your tax advisor before initiating any transfer or change in beneficiary to someone who is not a member of the family of the current beneficiary, especially in relation to potential federal and state income, gift, estate or generation-skipping transfer taxes, to determine the consequences of said transfer or change.

Transfers to Older Beneficiaries

Beginning in 2006, if a Utah taxpayer account owner does one of the following, the Utah State Tax Commission will be notified on that tax year's TC-675H form:

1. Changes the beneficiary from someone who was younger than age 19 when the account was opened to someone who was age 19 or older when the account was opened.

2. Transfers funds from a beneficiary who is younger than age 19 when the account was opened to a beneficiary who is 19 or older when the account was opened. Such a change or transfer will result in recapture of any Utah state income tax deduction claimed in any prior tax year or denial of a Utah state income tax deduction in the current year.

New Bankruptcy Law Protection

The federal Bankruptcy Act effective October 17, 2005, with some limitations as to the types of beneficiaries covered, provides bankruptcy protection for Section 529 Plan assets in bankruptcy that have been in the account for at least 720 days (or two years). For Section 529 assets held for less than 720 days but more than 365 days the protection is only for the first \$5,000 of the account balance. There is no bankruptcy protection for assets held less than 365 days - those assets are fully available to the bankruptcy estate to pay creditors.

Utah law does not currently provide any additional protection against creditors for funds held through UESP. Account owners should consult their own advisors regarding any specific bankruptcy protections afforded to them by their state or under their state's Section 529 Plan.

Tax Forms

1099-Q for Disbursement

If your account had a disbursement in 2005 (including a rollover to another Section 529 Plan), UESP will mail an Internal Revenue Service (IRS) Form 1099-Q to you by January 31, 2006. If the disbursement was sent to the account owner, the account owner will receive the form and be responsible for any tax reporting with the IRS. If a disbursement was sent to the beneficiary or the eligible educational institution, the beneficiary will receive the form and be responsible for any tax reporting with the IRS.

You do not report the earnings as income on your federal income tax return as long as funds are used for qualified higher education expenses. For Utah taxpayers, earnings on qualified disbursements are not reported on Utah income tax forms. If you are not a Utah taxpayer, please consult your tax advisor for your state's tax treatment of qualified or non-qualified disbursements.

You will be responsible for maintaining receipts and documentation regarding the use of the funds if requested by the IRS or your state's tax or revenue department.

TC-675H for Utah State Tax Deduction

By January 31, 2006, UESP will mail a TC-675H tax form for 2005 to each Utah resident account owner of record. Utah taxpayers who have moved away from Utah or who have not received the form need to call UESP to request the form.

The form will state the allowable amount contributed to a UESP account during the year that may be deducted by the account owner on their Utah income tax return. It will also provide the amount of disbursements made from each account during the year.

If any portion of the disbursement was not used for qualified higher education expenses and the disbursement was from funds contributed in 2005, a 2005 Utah state tax deduction cannot be claimed for the disbursement. If a Utah state tax deduction was claimed in any prior tax year, the account owner must add the previously deducted amount to their 2005 Utah taxable income for the non-qualified disbursement.

Custodial Accounts

Any tax forms for Custodial Accounts (Uniform Transfers to Minors Act /Uniform Gift to Minors Act - UTMA/UGMA monies), will be sent to the account agent. But, since the beneficiary is the account owner, the form will include the beneficiary's name, address, and Social Security or Taxpayer Identification number.

Contributions Made at the End of December 2005

For contributions received by UESP in 2005, but not invested until 2006, the contribution will have the tax year date of 2005, but it will be recorded in your account in January 2006. This means the transaction will be included in your March 2006 quarterly statement (not the December 2005 quarterly statement).

If you are a Utah taxpayer and your contribution was received in the UESP

office by the close of business on December 30, 2005, it will be included in your TC-675H as a 2005 contribution.

2006 State Tax Deduction

Utah taxpayers may deduct a portion of their 2006 contributions to UESP from Utah taxable income. For 2006, a Utah taxpayer may deduct up to \$1,560 (\$3,120 if filing jointly) per beneficiary.¹

Maximum Aggregate Contribution

As of January 2006, the maximum cumulative amount that can be contributed to all UESP accounts for the same beneficiary will be increased to \$319,000. This amount may be adjusted by UESP each year.

Estate & Gift Tax Considerations

Funds invested in UESP are treated as a completed gift to the beneficiary for federal estate and gift tax purposes. Generally, the assets held in a UESP account are not included as part of the account owner's estate although the account owner remains in control of the funds. Because the funds are considered to be a completed gift, gift tax and generation-skipping transfer tax rules apply.

Beginning in January 2006, Section 529 allows an account owner to make a gift of up to \$60,000 (\$120,000 if filing jointly) to a single beneficiary in one year without creating a taxable gift if the account owner makes an election to treat the entire gift as a series of five equal annual gifts. This is accomplished through a five-year averaging election made on the federal gift tax return, IRS Form 709. The account owner cannot make any additional gifts to that beneficiary during the five-year period without incurring additional gift tax liability. Normally, any amount over \$12,000 to a

¹ Investors who are not Utah taxpayers should determine whether the state in which they reside or pay taxes offers a Section 529 Plan and if so, whether that plan offers state tax or other benefits not available through UESP.

single person (\$24,000 if filing jointly) in one year is subject to federal gift tax. If the account owner dies before the five-year period has elapsed, the portion of the contribution allocable to calendar years remaining in the five-year period after the year of death are includable in the account owner's estate for estate tax purposes.

The annual gift tax exclusion increased in 2006 to \$12,000 from \$11,000 in previous years.

If an account owner took advantage of the five-year averaging election in prior years, the account owner (and spouse, if filing jointly) can make an additional gift in each of the remaining years of the election.

For example, if in 2005, an account owner elected to make a gift of \$55,000 over five years from 2005 through 2009, in 2006 that account owner could make an additional gift of \$1,000 to that same beneficiary without incurring any gift tax liability.

Also, the account owner could make additional gifts of \$1,000 to that same beneficiary in each of years 2007, 2008 and 2009. If the account owner and spouse elected to make a gift of \$110,000 over five years from 2005 through 2009, in 2006 that account owner and spouse could make additional gifts of \$2,000 to that same beneficiary without incurring any gift tax liability.

Also, the account owner and spouse could make additional gifts of \$2,000 to that same beneficiary in each of years 2007, 2008 and 2009.

Please talk to your tax advisor if you have any questions about estate and gift tax considerations.

Moving?

Don't forget to update your address with UESP when you move. To do so, complete the Account Information Change Form, Form 500, and submit it to UESP. To obtain the form, visit our website, www.uesp.org, or call 1.800.418.2551.

Form Updates

UESP's forms have been updated and are available at www.uesp.org. UESP will not accept forms that are dated prior to January 2005. The date is printed on the bottom right-hand corner of each form.

Online Statements

Get your statement online! To do so:

- Login at www.uesp.org
- Click on the drop down box on your accounts list
- Choose the appropriate statement
- Print your statement and keep it for your records

State Tax Deduction in Jeopardy

Utah's Legislative Tax Reform Task Force and Governor Jon Huntsman Jr. each support an income tax reform package for Utah. Though each package is different, they have in common the elimination or reduction of all state tax deductions. The deduction Utah taxpayers receive for contributions to UESP would be eliminated by the implementation of these proposals. If you would like to share your opinion on these proposals with state officials, you can find their contact information at www.utah.gov.

"College Invest Act of 2005" Update

Bipartisan legislation, the "College 529 Invest Act of 2005" (Investment in Education Savings for Tomorrow), has been introduced in Congress to make the tax-exempt treatment of Section 529 college savings plans permanent.²

Extending this benefit would help taxpayers save for college by allowing tax-free treatment for distributions from Section 529 Plans beyond December 31, 2010. All members of the Utah Congressional delegation have signed on as co-sponsors of this act, including:

- Senator Orrin Hatch
- Senator Bob Bennett
- Representative Rob Bishop
- Representative Jim Matheson
- Representative Chris Cannon

Corndog Money? Save with UESP

UESP's new media campaign is showing Utahns that the cost of a corndog can start their children's college savings accounts.³ College is one of the largest expenses a family will ever have.

UESP's new TV ads, airing statewide through April, are directed at young Utah families, showing that starting to save for college is easier than one might think, despite tight budgets.

During the campaign, 500 free corndog coupons to Hot Dog On a Stick were issued to Utahns who opened a UESP account, giving them a little more pocket change to set aside in their UESP account.



The stars of UESP's new TV ad count their corndog money.

² The current law that allows tax-free withdrawals for qualified higher education expenses will expire after December 31, 2010 unless Congress extends the exemption beyond this date.

³ There is no guarantee that a beneficiary will be accepted to an institution of higher education or that a beneficiary will be able to maintain attendance or receive a degree. Neither UESP nor the State of Utah offer any guarantees regarding the future costs of higher education or the ability of the account to cover these costs for any beneficiary. The total amount of costs for the beneficiary may exceed the amount saved through a UESP account.

Utah Educational Savings Plan

Investment Option Performance as of December 31, 2005

Portfolio/Share Class	Latest Month	Latest 3 Months	Latest Quarter End ¹	Year to Date ²	Average Annual ⁴				Inception Date	
					1 Yr.	3 Yr.	5 Yr.	Since Inception		
AGE-BASED OPTIONS										
Option 2 - S&P/Bonds/Money Market	0-3	0.04%	1.88%	1.88%	4.31%	4.31%	13.37%	0.32%	0.60%	9/20/99
	4-6	0.13%	1.74%	1.74%	4.06%	4.06%	12.29%	0.82%	1.30%	9/20/99
	7-9	0.23%	1.60%	1.60%	3.82%	3.82%	11.22%	1.32%	2.00%	9/20/99
	10-12	0.32%	1.45%	1.45%	3.57%	3.57%	10.14%	1.82%	2.70%	9/20/99
	13-15	0.40%	1.27%	1.27%	3.28%	3.28%	8.39%	2.29%	3.35%	9/20/99
	16+	0.55%	0.97%	0.97%	2.79%	2.79%	5.49%	3.12%	4.51%	9/20/99
College Enrolled ³	0.30%	0.88%	0.88%	2.81%	2.81%	1.79%	2.31%	3.28%	9/20/99	
Option 3 - S&P and Bonds	0-3	-0.01%	1.96%	1.96%	4.43%	4.43%	13.91%	0.07%	0.25%	9/20/99
	4-6	-0.01%	1.96%	1.96%	4.43%	4.43%	13.91%	0.07%	0.25%	9/20/99
	7-9	-0.01%	1.96%	1.96%	4.43%	4.43%	13.91%	0.07%	0.25%	9/20/99
	10-12	0.04%	1.88%	1.88%	4.31%	4.31%	13.37%	0.32%	0.60%	9/20/99
	13-15	0.13%	1.74%	1.74%	4.06%	4.06%	12.29%	0.82%	1.30%	9/20/99
	16+	0.23%	1.60%	1.60%	3.82%	3.82%	11.22%	1.32%	2.00%	9/20/99
College Enrolled ³	0.32%	1.45%	1.45%	3.57%	3.57%	10.14%	1.82%	2.70%	9/20/99	
Option 7 - Diversified-A	0-3	0.80%	2.27%	2.27%	7.95%	7.95%	NA	NA	27.28%	4/1/03
	4-6	0.80%	2.27%	2.27%	7.95%	7.95%	NA	NA	27.28%	4/1/03
	7-9	0.83%	1.92%	1.92%	6.76%	6.76%	NA	NA	22.43%	4/1/03
	10-12	0.86%	1.57%	1.57%	5.56%	5.56%	NA	NA	17.59%	4/1/03
	13-15	0.89%	1.22%	1.22%	4.36%	4.36%	NA	NA	12.74%	4/1/03
	16+	0.92%	0.87%	0.87%	3.17%	3.17%	NA	NA	7.89%	4/1/03
College Enrolled ³	0.30%	0.88%	0.88%	2.81%	2.81%	NA	NA	1.82%	4/1/03	
Option 8 - Diversified-B	0-3	1.64%	2.39%	2.39%	7.68%	7.68%	NA	NA	23.34%	4/1/03
	4-6	1.55%	2.16%	2.16%	6.96%	6.96%	NA	NA	20.81%	4/1/03
	7-9	1.46%	1.92%	1.92%	6.25%	6.25%	NA	NA	18.27%	4/1/03
	10-12	1.38%	1.69%	1.69%	5.54%	5.54%	NA	NA	15.73%	4/1/03
	13-15	1.23%	1.49%	1.49%	4.91%	4.91%	NA	NA	13.07%	4/1/03
	16+	1.08%	1.29%	1.29%	4.28%	4.28%	NA	NA	10.41%	4/1/03
College Enrolled ³	0.30%	0.88%	0.88%	2.81%	2.81%	NA	NA	1.82%	4/1/03	
Option 9 - Diversified-Bonds Emphasis	0-3	1.13%	1.54%	1.54%	5.25%	5.25%	NA	NA	15.45%	4/1/03
	4-6	1.09%	1.34%	1.34%	4.59%	4.59%	NA	NA	12.97%	4/1/03
	7-9	1.05%	1.13%	1.13%	3.94%	3.94%	NA	NA	10.49%	4/1/03
	10-12	0.95%	0.96%	0.96%	3.37%	3.37%	NA	NA	7.88%	4/1/03
	13-15	0.85%	0.79%	0.79%	2.79%	2.79%	NA	NA	5.28%	4/1/03
	16+	0.76%	0.62%	0.62%	2.22%	2.22%	NA	NA	2.68%	4/1/03
College Enrolled ³	0.30%	0.88%	0.88%	2.81%	2.81%	NA	NA	1.82%	4/1/03	
STATIC OPTIONS										
Option 1 - Money Market	All Ages	0.35%	1.00%	1.00%	3.31%	3.31%	2.29%	2.81%	4.88%	11/1/96
Option 4 - S&P 500	All Ages	-0.01%	1.96%	1.96%	4.43%	4.43%	13.91%	0.07%	0.25%	9/20/99
Option 5 - Bonds	All Ages	0.95%	0.52%	0.52%	1.97%	1.97%	3.13%	NA	3.91%	9/9/02
Option 6 - Diversified Stocks	All Ages	0.80%	2.27%	2.27%	7.95%	7.95%	NA	NA	27.28%	4/1/03

Important Information Regarding Investments in UESP:

Past performance does not guarantee future results; investment return and the value of the investment will fluctuate; the value of your account, when redeemed, may be worth more or less than the amount you contribute. You could lose money. The performance numbers listed above are that of the investment options, not individual accounts. Actual performance may be higher or lower than the option performance. Returns are based on a \$10,000 account balance for non-Utah residents and are net of all fees. Actual performance for Utah residents may be higher.

1 UESP quarterly reporting periods end each March 31, June 30, September 30, and December 31.

2 Year-to-date calculations are based on a calendar year; January 1st to the current month end date.

3 UESP will reallocate the funds to the "College Enrolled" investment bracket on age-based accounts when UESP receives a disbursement request form indicating the beneficiary's enrollment in college.

4 Average Annual Return for the trailing 12 months, 36 months, and 60 months.