Diabetes Research Institute Foundation
The Best Hope for a Cure®

Fall 2012

DRI financial focus

JOY OF GIVING TRANSCENDS ECONOMIC CONCERNS

HISTORY HAS SHOWN THE GENEROSITY OF THE AMERICAN PEOPLE TO BE INCREDIBLY RESILIENT. OVER THE YEARS, PHILANTHROPIC CITIZENS HAVE FACED THEIR FAIR SHARE OF ECONOMIC UNCERTAINTY. THROUGH IT ALL, HOWEVER, ONE TRUTH HAS EMERGED AS A CONSTANT: THE JOY OF GIVING ALWAYS TRIUMPHS OVER ECONOMIC CONCERNS.

Common concerns as 2013 approaches:

- Will the economy continue to recover or slip back into a recession?
- What tax changes are on the horizon?
- Will financial challenges in Europe have ripple effects in the U.S.?
- Is now the time to buy gold or other precious metals?

While it is prudent to keep a watchful eye on these kinds of issues, those who are charitably minded tend to focus more on the best current strategies to generate tax and other financial benefits to round out the personal satisfaction they get from giving. As always, the options are plentiful.

Emma pricks her finger multiple times a day to check her blood sugar. With your support, we can change the lives of millions of adults and children like Emma, who live with diabetes every day.

CHARITABLE DEDUCTION CUTS THE COST OF GIVING

Outright gifts to the Diabetes Research Institute Foundation qualify 100% for an income-tax charitable deduction. If you itemize deductions on your federal income-tax return, this can reduce the cost of your gift by up to 35% (not including state income-tax deductions, which you may be entitled to receive).

The chart to the right shows the final out-of-pocket cost for a $1,000 outright gift to the DRI Foundation by a taxpayer in each of the six current federal income-tax brackets.

Federal Tax Bracket	Outright Gift	Tax Savings	Final Out-of-Pocket Cost of Gift
10%	$1,000	$100	$900
15%	$1,000	$150	$850
25%	$1,000	$250	$750
28%	$1,000	$280	$720
33%	$1,000	$330	$670
35%	$1,000	$350	$650

A MESSAGE FROM THE CHAIRMAN

Through the ebb and flow of changing tax brackets, economic indicators, and interest rates, the joy of giving emerges as the primary motivator for year-end planning.

In this issue of *DRI Financial Focus*, we are keeping an eye on potential changes that could affect your charitable planning decisions. In this time of historic low interest rates, take the time to review your options before estate tax rates change in 2013. There are several unique opportunities to consider prior to the end of 2012.

Giving begins in the heart. In the case of the Diabetes Research Institute, your benevolence helps millions of children and adults now living with diabetes. There can be no greater reward than knowing that you have helped take us one step closer to a cure.

With best wishes for a joyful holiday season and a Happy New Year,

Harold G. Doran, Jr.
Chairman of the Board

JOY OF GIVING TRANSCENDS ECONOMIC CONCERNS

continued from cover

CUT THE COST OF GIVING EVEN MORE WITH GIFT OF APPRECIATED PROPERTY

Many of our donors have discovered a "bonus" savings when they make their gifts using appreciated property such as stocks or real estate.

Reason: Tax laws not only allow you to deduct the full fair-market value of most assets you have owned for more than one year, they also allow you to avoid paying capital-gain tax on paper gain resulting from those assets.

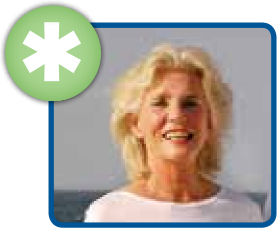
Gift Spotlight: Assume you decide to give the DRI Foundation some stock you purchased three years ago for $5,000 that now is worth $10,000. You would be able to:

- take a deduction for the current $10,000 value.
- escape tax on the $5,000 increase in the value of the stock since you bought it.
- avoid up to $750 in tax you would have paid had you sold the stock (based on long-term capital-gain tax of 15%).

When these savings are added to your income-tax savings on the $10,000 deduction, your out-of-pocket cost of your gift could be as little as $5,750.

CREATIVE CHARITABLE PLANNING CAN CREATE NEW SOURCE OF INCOME

Making a gift doesn't always have to mean giving up all the financial benefits of ownership. A charitable gift annuity, for instance, generates guaranteed payments for life to you or those you designate and allows you to accomplish your philanthropic objectives.



Gift Spotlight: Katherine T, 75, donates $100,000 to create a charitable gift annuity, and we promise to pay her $5,800 each year for the rest of her life. Benefits to Katherine include:

- guaranteed payments for life.
- a deduction for $40,157 she can use immediately.
- more than $4,826 of her annual payment will be tax-free for the balance of her life expectancy.

A number of factors affect the specific terms of an annuity—primarily age and number of annuitants. We would be happy to work with you and your advisors to determine the exact annuity payment and deduction for a gift you are considering.

CAPITALIZE ON CURRENT LOW INTEREST RATES

The tax benefits of some creative gift plans are more attractive when interest rates are low.

HERE IS ONE GIFT STRATEGY FOR CURRENT HISTORIC LOW INTEREST RATES:

You have assets you ultimately want to pass to family but would consider putting the assets in a trust and making a gift of its payments to the DRI Foundation for a term of years.

The value of the payments to the DRI Foundation reduces—or even eliminates—gift or estate tax. For example, if you put $1,000,000 in assets into a trust that will pay the DRI $60,000 a year for 20 years, none of the amount placed in the trust will be treated as a taxable gift to your beneficiaries, regardless of how much is actually distributed to them at the end of the trust term.

TAX CHANGES: WILL THEY WORK OR WON'T THEY?

One of the greatest areas of uncertainty facing American taxpayers is what will happen with the tax code. Here is a synopsis of how different—but plausible—scenarios could develop:

- **The current "Bush tax cuts" are allowed to expire at the end of 2012.** If this happens, rates return to 2001 levels—an increase for virtually all taxpayers, with the top rate going from 35% to 39.6%. Tax rates for long-term capital gain would go up to a maximum of 20% versus a current top rate of 15%, and qualified dividends would be taxed as ordinary income.

A scientist demonstrates the Ricordi Chamber, which was invented by DRI Scientific Director Dr. Camillo Ricordi.

Diabetes Research Institute Heritage Society

LET US PAY TRIBUTE TO YOU!

If you have named the DRI Foundation in your will or in your estate plans (such as a retirement plan, life insurance, gift annuity, or trust), you are eligible for membership in the DRI Heritage Society. Those who have made planned gifts through the DRI Foundation are the powerful sustaining heartbeat of the DRI's research programs. By declaring your charitable intentions, you are allowing us to express our gratitude to you while inspiring others to support the DRI in a similar manner. DRI Heritage Society members are recognized in perpetuity on a designated Wall of Honor at the DRI. Members are also presented with a distinctive Heritage Society award and are listed in our Annual Report. As a token of our appreciation, **new members who join the DRI Heritage Society by December 31, 2012 will receive an additional special memento.** ■

- **Estate- and gift-tax rules change dramatically.** Under current rules, each individual can pass on up to $5,120,000 free of gift or estate tax and the top rate is 35% on any amount that is taxable. That would drop to $1 million with rates as high as 55% if the current law expires. Alternative proposals would continue higher exemptions and lower rates.

- **Rates are increased for certain higher income taxpayers.** Multiple proposals are on the table, with thresholds ranging from $250,000 to $1,000,000 for a married couple filing jointly.

- **Rates go down across the board.** Again, there are different proposals out there that would implement this differently, with top income-tax rates in the mid- to high-twenties.

What does all this tell us? As you make your year-end giving plans, the best course is to focus on current realities and be creative in taking advantage of the opportunities they present.

REBOUND FOR REAL ESTATE

No segment of the economic fabric of our country has been impacted more than real estate by the recession that swept the globe in 2008 and 2009. Recently, however, there have been signs of recovery in many parts of the U.S.—and some areas have displayed remarkable strength.

This may be the right time to reassess how your real estate holdings figure into your charitable planning. In most cases, you will qualify for a deduction based on the full fair-market value of your property and will avoid or reduce tax on the built-in capital gain. For instance, if you bought several acres in the path of growth 15 years ago for $100,000 that now are worth $200,000, a gift of that land would generate a deduction of $200,000 and you would avoid tax on $100,000 of capital gain.

With careful planning, a gift of real estate may let you maintain your current income, hedge your bets on future real estate values, and relieve yourself of management responsibilities.

Gift Spotlight: For example, an investor who owns a small apartment building could transfer that property to a special kind of trust that will make payments to the investor for life equal to 6% of the trust's annual value. Assuming the building was worth $600,000 and the owner was age 72, the donor would get a deduction of more than $297,000 and avoid most if not all capital-gain tax. The trustee would have responsibility for management of the property and could either elect to sell it and reinvest the proceeds or keep it. If, in the latter case, the value of the property and the rents increased, the payments to the donor would go up too.

Many people have found it beneficial to make gifts of their personal residences or farms to the DRI Foundation and keep the right to live in and enjoy the property for the rest of their lives. The resulting savings increases available cash flow without any other change in the donor's current lifestyle or circumstances.

There are many creative uses for real estate in your charitable planning. Please feel free to contact us if you would like to discuss how a gift of real estate to the DRI Foundation could benefit you. ■

Visit our Web site Dri.Giftplans.org to learn more.

NEXT STEPS

1. **CONTACT** Jill Shapiro Miller to learn more about how you can become eligible to join the DRI Heritage Society.
2. **CALL** us at (800) 321-3437 or (954) 964-4040.
3. **E-MAIL** Jill Shapiro Miller at jshapiro@drif.org.
4. **SCHEDULE** a tour of the DRI to meet our scientists in their research laboratories by calling or sending an e-mail to Jill Shapiro Miller.
5. **REQUEST** a copy of our booklet, ***Top 10 Year-End Tax Planning Questions and Answers***, an essential planning tool for the future.

DRI Financial Focus is a publication of the Diabetes Research Institute Foundation. **Fall 2012**