A Gift of Cryptocurrency

At the time of this writing in late June 2021, market prices of cryptocurrencies such as Bitcoin and Ethereum have fallen sharply from their astonishing highs of a few months back, but are still very considerably above their historical ranges.

Investors who bought in several years ago at much lower prices may be looking to consolidate their gains and invest in less volatile securities. Some may wish to share a portion of their unrealized gains with a favored charitable organization, while obtaining a tax benefit.

But how exactly does this work? Is this considered a gift of cash or property? If the latter, how might the income tax deduction be limited? What are the reporting requirements?

the basics

IRS has not yet published formal guidance on cryptocurrencies, but in 2014 the agency did issue Notice 2014-21 in the form of 16 frequently asked questions, which they have since expanded to 46 on their website.

Among other things, these FAQs make clear that IRS views virtual currencies, including crypto coin, as property, not cash. If you convert to cash, or to another virtual currency, or if you exchange crypto coin for goods or services, this is treated as a sale.

The income tax Code includes a very strong incentive for charitable gifts of appreciated property to public charities. A deduction is allowed at fair market value, offsetting ordinary income, despite the fact that the donor does not recognize long term gain.

The deduction per year is limited to 30 percent of adjusted gross income, rather than the 50 percent allowable for cash gifts,[*] but there is a five-year carryforward.

But this favorable treatment is available only if your gain would have been long term. If your holding period is less than a year, or if the crypto coin is not a capital asset in your hands -- for example, if you are a dealer and the gift is from inventory -- your deduction will be limited to your adjusted basis, typically your purchase price.

the details

Although crypto coins are fungible, you would want to make any charitable gift from coins in which you have a lower basis, so that you will incur a smaller taxable gain on the eventual sale or exchange of any coins you keep. To this end, in reporting the gift to IRS you will want to document the unique digital identifiers of the contributed coins. Otherwise the default rule is "first in first out."

To substantiate a claimed deduction for a gift of property worth more than $5k, or for multiple gifts of similar items aggregating more than $5k in value, you are required to attach a form 8283 to your return, on which among other things you disclose the date or dates on which you acquired the property as well as your adjusted basis.

The form 8283 also requires a signature from the recipient charity acknowledging the gift, and a statement from a "qualified" appraiser confirming the claimed value. IRS regulations defining who is "qualified" are quite stringent, so you will want to make your selection carefully.

and finally

You might find that your favored charity is not equipped to handle cryptocurrencies, but many donor advised fund sponsors do have this capacity, and can readily facilitate these gifts.

[*] Through 2025, the limitation for cash gifts has been increased to 60 percent of AGI in the year the gift is made, with any carryforward subject in outlying years to the 50 percent limitation.

For calendar 2020 and 2021 only, cash gifts to public charities other than nonoperating private foundations, supporting organizations, and donor advised funds are deductible to 100 percent of AGI.

https://www.irs.gov/individuals/international-taxpayers/frequently-asked-questions-on-virtual-currency-transactions