Transferring Cryptocurrency to TSCW

Donations of cryptocurrencies result in a win-win scenario for both the donor and the charity. Donors receive a larger tax benefit because the entire fair market value of the donation can be deducted and there is no concern about liquidation of tokens. Charities receive the entire amount of cryptocurrency and, ultimately, a larger gift.

Cryptocurrency Overview: Cryptocurrency is a digital or virtual currency designed to work as a medium of exchange. Like paper money (cash), cryptocurrency can be exchanged for goods and services; it has value because we believe and agree that it does. Unlike cash, cryptocurrency is exchanged electronically and uses cryptography to secure and verify transactions, as well as to control the creation of new units of a particular cryptocurrency. Essentially, cryptocurrencies are limited entries in a database that no one can change unless specific conditions are fulfilled. The concept closely resembles peer-to-peer networks for file sharing.

Tax Considerations: IRS rules regarding charitable donations of purchased cryptocurrencies are very similar to the rules regarding donations of appreciated securities. A gift of cryptocurrency will be valued at the time of donation at its fair market value. (A charity must sign a donor’s IRS Form 8283 for the donor to receive a charitable deduction if the property is valued at $500 or more. For amounts greater than $5,000, an appraisal is required by a certified appraiser.) Additionally, selling cryptocurrency leaves investors subject to the rules governing capital gains: they’ll pay capital gains tax on any increase in value since they bought the cryptocurrency. (If the cryptocurrency has been held for a year or less, investors will pay short-term capital gains taxes at their ordinary income rate. Selling cryptocurrency held for longer than a year will trigger long-term capital gains taxes at rates ranging from 0% to 20%, depending on the investor’s ordinary income tax bracket.)

Example: Donor A is in the 25% tax bracket and bought a Bitcoin for $1 back in 2010. Currently, it’s worth $19,001. If Donor A sells the Bitcoin, she’ll have a capital gain of $19,000. If she is also in the top tax bracket, then she’ll pay long-term capital gains tax of 15% on that gain, costing her $2,850 in taxes. That leaves $16,150 to go to her favorite charity, for which she will get an itemized deduction that could reduce your tax bill by $4,038. At the end of the day, Donor A will end up with a net tax savings of $1,188, and the charity will get $16,150 in cash.

However, if that same Bitcoin is donated directly to the charity, Donor A’s gift will be $19,001, for which she’ll get a full deduction because she owned the bitcoin for longer than one year. This charitable gift won’t trigger any capital gains tax and will provide Donor A with an itemized deduction of $4,750. When the charity sells the Bitcoin for cash to support its mission, it will receive the entire $19,001 and, as a tax-exempt organization, will not be liable for any capital gains tax. It’s important to note that receiving payments in cryptocurrency in exchange for products or services or as salary is treated as ordinary income at the fair market value of the coin at the time of receipt. Charitable donations of earned cryptocurrency are treated as gifts of cash and are not subject to capital gains tax.
**Cryptocurrency and Estate Planning.** Unlike bank accounts which can be accessed after death by an estate’s executor, digital assets typically require a variety of private information to be accessed. This information (and an investor’s digital assets) may be lost forever if an investor fails to record it or share it with a trusted third party during their lifetime. To avoid this, it is crucial that investors physically record any private access information and provide for custody of this information in their wills.

The federal estate tax is based on the value of one’s assets less liabilities at one’s date of death and is imposed at a rate of 40%. One important exception that is critical to understanding how the federal estate tax works involves the estate and gift tax exemption. This exemption is the amount that one can transfer to anyone during one’s lifetime or at death without incurring a gift or estate tax. The Tax Cuts and Jobs Act of 2017 (TCJA) increased the exemption to $11.18 and this amount will be indexed annually for inflation until 2026 (when the exemption amount is scheduled to revert to $5.49 million, with an adjustment for inflation). For wealthier owners of crypto-currency assets, implementing certain estate planning techniques, such as leaving all or part of it to charity rather than leaving potentially highly taxed assets to heirs, may be beneficial.