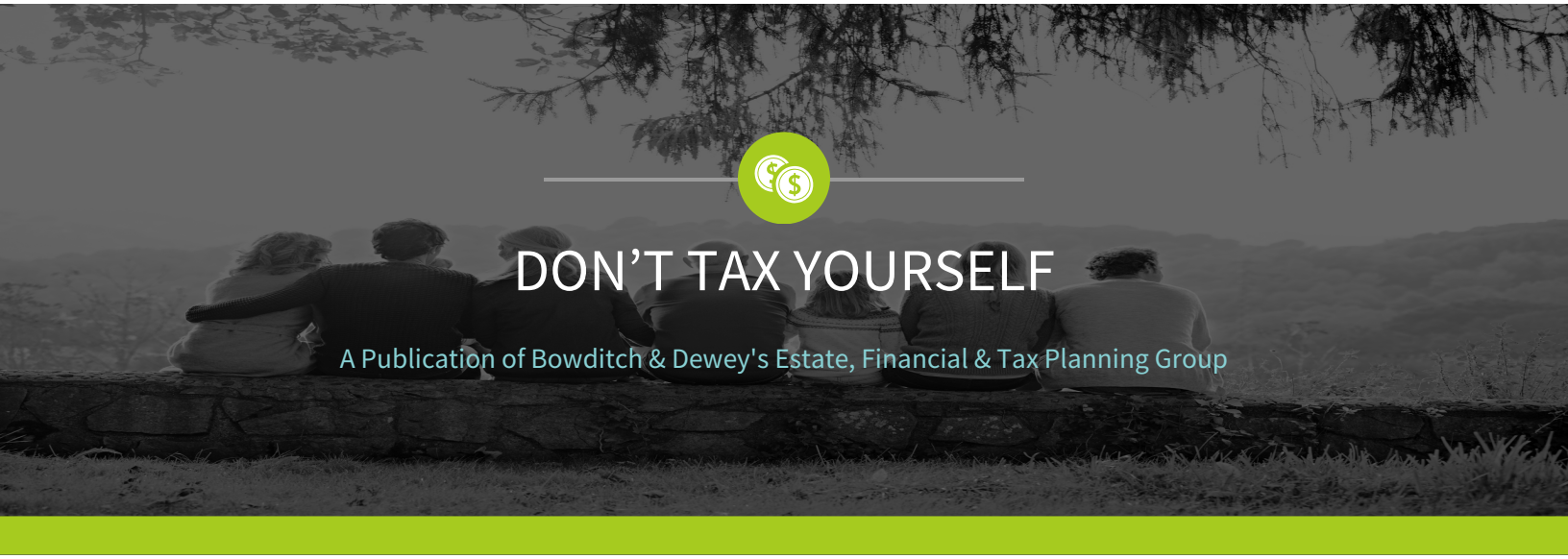

Charitable Contributions of Crypto Currency

BY BOWDITCH & DEWEY • MAY 17, 2022

Although the recent crypto currency market correction has taken some luster off digital coins, the tax implications of owning and transferring these assets are still important to understand. Because crypto currency is not considered cash for U.S. tax purposes, any transfer of crypto currency in exchange for other property is considered the sale of the crypto currency. The taxpayer will recognize gain or loss on the currency's change in value on such a transfer.

If a taxpayer seeks to contribute crypto currency to a charity, the contribution is also treated as a contribution of property (not cash). As a result, if a taxpayer contributes more than $5,000 of crypto currency to a charity, the taxpayer must obtain a qualified appraisal of the currency. A taxpayer does not need such an appraisal for donations of cash, inventory or property held primarily for sale to customers in the ordinary course of a trade or business, or publicly traded securities. Crypto currencies are not considered securities for tax purposes. Securities are defined in the tax rules as shares of stock in a corporation, the rights to subscribe for a share of stock (such as an option), or a bond, note or other evidence of indebtedness.

If a taxpayer holds crypto currency with a short-term capital gain at the time of the charitable contribution, the charitable contribution deduction is limited to the taxpayer's basis in the crypto currency and will not include the currency's capital appreciation.

Likewise, if a taxpayer donates crypto currency to a private foundation (rather than a public charity), the deduction for the charitable contribution is reduced by any long-term or short-term capital gain appreciation. Such long-term capital gain reduction does not apply, by contrast, to donations of most stock to private foundations.

There are many traps for the unwary when making charitable donations of crypto currency. More and more public charities, however, are accepting direct donations of crypto currency. Other donor-advised funds also will accept charitable contributions of crypto currency and allocate the contributions to particular non-profit organizations. Talk with your tax advisor, however, to ensure you are compliant with the tax rules to maximize any tax deduction from such crypto currency donations.

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