# Benefits of Donating Cryptocurrency to Charity

## A tax-smart approach to maximize your philanthropic impact

by the Charitable Strategies Group at Schwab Charitable

For charitably minded individuals, cryptocurrency investments – such as Bitcoin and Ethereum – held more than one year may provide a unique opportunity to leverage highly appreciated assets to achieve maximum impact with charitable giving.

Donating long-term held cryptocurrency investments can unlock additional funds for charity in two ways. First, you potentially eliminate the capital gains tax you would incur if you sold the assets yourself and donated the proceeds, which may increase the amount available for charity by up to 20%. Second, if you itemize deductions on your tax return instead of taking the standard deduction, you may claim a fair market value charitable deduction for the tax year in which the gift is made and may choose to pass on that savings in the form of more giving.

Donor-advised funds, which are 501(c)(3) public charities, can be a tax-efficient solution for contributions of cryptocurrency, as the funds typically have the resources and expertise for evaluating, receiving, processing, and liquidating non-cash assets. How does gifting appreciated cryptocurrency to a donor-advised fund work?

**Donor**

**Contribute appreciated cryptocurrency held over one year** ❯

- Potentially eliminate capital gains tax on appreciation
- Claim current year, fair market value income tax deduction

**Donor-Advised Fund**

**Recommend grants from your account immediately or over time** ❯

- Invest account assets for tax-free potential growth

**Charities**

Please be aware that gifts of appreciated non-cash assets, including cryptocurrency, can involve complicated tax analysis and advanced planning. This article is only intended to be a general overview of some donation considerations and is not intended to provide tax or legal guidance. In addition, all gifts to donor-advised funds are irrevocable. Please consult with your tax or legal advisor.

# Case study: making a larger gift while increasing tax savings

To illustrate the benefits of donating appreciated cryptocurrency, consider Alison, who purchased 10 Bitcoin five years ago at $500 each for a $5,000 cost basis.

Five years later, Bitcoin is valued at $25,000 per coin, so the total fair market value of Alison's 10 Bitcoin investment is $250,000. Alison could sell her Bitcoin and donate the net cash proceeds to a donor-advised fund or other public charity. In that instance, assuming a 15% federal capital gains tax rate based on her income level, she would realize appreciation of $245,000 and owe an estimated $36,750 in federal capital gains taxes ($245,000 x 15% = $36,750).

In this scenario, as shown in Option 1, after paying the federal capital gains taxes, Alison's estimated net cash available for charitable giving is $213,250.

Now let's review Alison's benefits from gifting those 10 Bitcoin directly to a donor-advised fund or other public charity, as shown in Option 2. In this scenario, Alison can eliminate capital gains tax ($36,750), while potentially claiming a current year income tax deduction for the fair market value ($250,000), assuming she itemizes her deductions.

Original cost (cost basis) of Bitcoin: **$5,000**

Federal long-term capital gains tax rate: **15%**

Fair market value of Bitcoin:
**$250,000**

| | Option 1: Sell Bitcoin and then donate the after-tax proceeds | | Option 2: Contribute Bitcoin directly to Schwab Charitable | |
|---|---|---|---|---|
| Long-term capital gains taxes paid | $36,750 | | $0 | |
| Charitable contribution and tax deduction | $213,250 | vs. | $250,000 | Additional amount available to grant to charities: $36,750 |
| Tax savings | $14,430 | | $60,000 | Additional amount saved on taxes: $45,570 |

This hypothetical example is only for illustrative purposes. The example does not take into account any state or local taxes or the Medicare net investment income surtax. The tax savings shown is the tax deduction, multiplied by the donor's income tax rate (24% in this example), minus the long-term capital gains taxes paid.

## Additional considerations

In addition to the potential tax benefits described above, the following considerations may apply.

**1. Donate before selling.**

In order to maximize the potential tax benefits described above, you can transfer your appreciated cryptocurrency, held for more than one year, directly to a donor-advised fund or other public charity rather than selling the cryptocurrency and donating the cash.

**2. Avoid prearranged sales.**

You should not enter into any arrangement that would legally compel a donor-advised fund or other public charity to dispose of the cryptocurrency upon receipt. This kind of "prearranged sale" could reduce or eliminate the tax benefits of making your donation. Upon receipt of the cryptocurrency, the donor-advised fund or other public charity controls the asset. For most public charities, the general policy is to promptly sell contributed cryptocurrency, but a charity may reserve the right to sell at any time.

**3. Unique tax features may apply to cryptocurrency donations.**

A gift of cryptocurrency to a donor-advised fund or other public charity is not recognized by the IRS as a gift of currency or legal tender. For tax purposes, cryptocurrencies are treated as capital assets or income, depending on whether the cryptocurrency was held for investment purposes or received as a form of compensation (e.g., as a mining reward or income received in the form of cryptocurrency).

- If the asset was held as an investment for more than one year and you itemize deductions, you may deduct the fair market value (as determined by a qualified appraisal) of the gift, up to 30% of your adjusted gross income (AGI) with a five-year carryover.
- If the cryptocurrency was held as an investment for one year or less, or was not held for investment (i.e., ordinary income asset, such as where cryptocurrency was mined or received in exchange for services rendered), and you itemize deductions, you may deduct the lesser of cost basis or fair market value at the time of contribution, up to 50% of your AGI with a five-year carryover.

To substantiate your charitable income tax deduction, you are required to complete Form 8283 and obtain a qualified appraisal from a qualified appraiser for contributions of cryptocurrency valued at more than $5,000.


### Interested in learning more?

The Charitable Strategies Group at Schwab Charitable is a team of professionals with specialized knowledge about non-cash asset contributions to charities. Our team stands ready to support you and your advisors, from initial consultation through asset evaluation, receipt, processing, and sale. We strive to provide unbiased guidance and frequent communication at every step of the process to help you and your advisors make informed decisions and stay aware of the time required for your transaction.

For more information about the advantages of contributing appreciated non-cash assets, you can review our infographic, read an overview article, or call us at 800-746-6216.

If you would like to learn more about Schwab Charitable donor-advised fund accounts, click here.

Giving is good.
Giving wisely
is great.

For questions or assistance with philanthropic planning or charitable giving:

Visit
**www.schwabcharitable.org**

Call Schwab Charitable at
**800-746-6216**

Contact your advisor

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This information is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. A donor's ability to claim itemized deductions is subject to a variety of limitations, depending on the donor's specific tax situation. Where specific advice is necessary or appropriate, Schwab Charitable recommends consultation with a qualified tax advisor, Certified Public Accountant, financial planner, or investment advisor.

Contributions of certain real estate, private equity, or other illiquid assets may be accepted via a charitable intermediary, with proceeds transferred to a Schwab Charitable donor-advised account upon liquidation. Call Schwab Charitable for more information at 800-746-6216.