



## Gifts of Virtual Currency Such as Bitcoin – Some Considerations

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By Alison O'Carroll, Senior Consultant

“Virtual currencies” have been around for some time but have increasingly been in the news over the past several years. This can be at least partially attributed to the popularity of the virtual currency “Bitcoin,” which has experienced enormous growth in value since its launch in 2009. In fact, Bitcoin so dominates the virtual currency world that the word “bitcoin” is often a shorthand for referring to virtual currencies generally. However, there are separate e-currencies such as Ripple and Litecoin, along with other, smaller currencies.



**Bitcoin Logo**



**Litecoin Logo**



**Ripple Logo**

For the uninitiated, a virtual currency is designed to function just like any traditional currency, e.g., U.S. dollars, in providing a medium of exchange and a way to store value. However, it differs significantly from “real” currency in that all transactions take place online, it is not regulated by any government, and it does not have legal tender status anywhere in the world.

With the continued growth of Bitcoin, offers of gifts of bitcoins have inevitably followed. While still not common, charities are beginning to consider these gifts and in some cases accept them. In what is believed to be a “first” by an American college or university, in February 2014 the University of Puget Sound in Tacoma, Washington, accepted a gift of bitcoins worth \$10,000. Since then at least two other institutions of higher learning have accepted bitcoins: the Florida Gulf Coast University (May) and the University of Arkansas Foundation (August). Later in 2014 United Way Worldwide announced it would accept gifts of bitcoins, and other charities have done so as well.

In recognition of the heightened awareness around this gift type, PG Calc recently added bitcoins under the “What You Can Give” section of the website it provides to charities. To get a sense of how you might handle this on your website, visit our sample client website:

<http://plannedgiving.fenwayschoolpsy.org/what-you-can-give/bitcoin>.

### The IRS Speaks

In March 2014, the IRS addressed the tax implications of transactions involving virtual currency by issuing Notice 2014-21 (<http://www.irs.gov/pub/irs-drop/n-14-21.pdf>). The bottom line is that, for federal tax purposes, the IRS treats virtual currencies as property and not as currency. This means general tax principles that apply to other types of property apply to virtual currencies. This has helped clarify some aspects of gifts of bitcoins but has left other aspects unclear.

### **Donor's Allowed Charitable Deduction**

Since the IRS deems virtual currency to be property, the existing rules regarding charitable deductions for gifts of property apply to virtual currency. Hence, a donor's deduction depends upon whether the virtual currency is a *capital asset* in the hands of the donor – similar to stocks and bonds – or it is *ordinary income* property, e.g., received as wages or as proceeds from the sale of other property.

- If the donor and her accountant determine it is a capital asset held for more than one year, the donor will receive the favorable tax treatment of long-term appreciated securities, i.e., a charitable deduction at fair market value and no tax on the gain.
- If it is a short-term capital gain asset or an ordinary income asset, the deduction will be limited to the lesser of the fair market value or the donor's cost basis.

### **Substantiation**

A charity should issue to the donor a gift letter acknowledging and describing the gift, as it would with other gifts of property.

The donor will need to complete a Form 8283 if the claimed charitable deduction is over \$500. Virtual currency gifts where the claimed deduction is \$5,000 or less do not require an appraisal. If the amount is over \$5,000, most likely the donor should obtain a qualified appraisal. However, this may be problematic. In light of the nature of the gift and its relative newness, it is difficult to say who might meet the very specific IRS qualification standards for appraisers. Hopefully the IRS will clear up this uncertainty as to gift substantiation in the near future. In any event, a charity should bring this issue to the donor's attention and advise him or her to discuss it with their tax advisor.

### Policies

If a charity anticipates that some of its donors might want to give virtual currency, it should amend its Gift Acceptance Policies to address the situation. While the process for accepting virtual currency seems fairly straightforward and volatility risk can be minimized by converting the currency into US dollars immediately, some charities may still be reluctant to accept such gifts because of the unsettled legal environment and because of the perceived association of bitcoins with criminal activity. On the other hand, it could be a way to attract younger donors and, because there is at least one service that will process the donation without charging a transaction fee, it can be a cost effective way to accept small gifts of assets other than cash.

### To Learn More

For details about gifts of bitcoins and information about the gift process itself, see the University of Puget Sound donor article (<http://www.pugetsound.edu/news-and-events/campus-news/details/1279/>), and/or the United Way Worldwide website (<http://www.unitedway.org/pages/donate-bitcoin-to-united-way>) may be of help.