

Crypto Donated to Charity

Issue – Is a qualified appraisal required for a charitable contribution of cryptocurrency?

Chief Counsel Memorandum (CCM) 202302012 presents and answers this question, with a “Yes”. Here is the CCM’s reasoning:

FACTS presented in the CCM: Taxpayer A is an individual who purchases units of Cryptocurrency B for personal investment purposes. Taxpayer A later transferred all of her units to a charitable organization. On her self-prepared Federal tax return, she claimed a \$10,000 deduction. The amount was based on a value listed on the cryptocurrency exchange at the date and time of the donation. Taxpayer A did not attempt to obtain an qualified appraisal to support the deduction.

IRS RESPONSE - Notice 2014-21 describes cryptocurrency as “property” and that general tax principles applicable to property apply to cryptocurrency. A deduction for a charitable donation of property of more than \$5,000 requires a qualified appraisal according to IRC section 170(f)(11)(C).

Regulation 1.170A-16(d)(2)(i) gives an exception to this “qualified appraisal” requirement for donations of certain readily valued property specifically set forth in the Code and regulations. The property “specifically set forth” are: cash, stock in trade, inventory, property primarily held for sale to customers in the ordinary course of business, publicly traded securities, intellectual property, and certain vehicles. The CCM states cryptocurrency is not included in this list of items, therefore, does not meet this exception.

IRC section 170(f)(11)(A)(ii)(II) provides that failure to meet these appraisal requirements will not result in denial of the deduction if it is shown that the failure to meet the requirements is due to reasonable cause and not to willful neglect.

RESULTS - Taxpayer A was denied the deduction because:

- 1) Taxpayer A did not obtain a qualified appraisal and the property was not one of the “specifically set forth” items.
- 2) Taxpayer A did not have reasonable cause for failing to obtain the appraisal.

Editor’s comments – This position is illogical. While the CCM correctly interprets the regulation, it is possible that at the time the regulation was written that crypto currency was not well known. Perhaps the regulation needs to be reviewed in light of the digital asset world.

This text has been shared as a courtesy of: David & Mary Mellem, EAs & Ashwaubenon Tax Professionals, 920-496-1065 (920-496-9111).

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