



## IRS Clarifies Tax Treatment of Virtual Currency Donations

Charities are increasingly accepting donations of virtual currency such as bitcoin. In light of that fact, the IRS recently issued two Frequently Asked Questions (FAQ) clarifying a charity's responsibilities when accepting donations of virtual currency, which is treated as property for tax purposes. The FAQ are new additions to the IRS's [Frequently Asked Questions on Virtual Currency Transactions](#), which apply to virtual currency held by the donor as a capital asset.

The FAQ (Q35 and Q36) specify that a donation of virtual currency is to be treated as a noncash contribution. The charity must report the donation as such on its Form 990 or Form 990-EZ for the tax year in which it receives the donation and on Form 990/990-EZ Schedule M if the charity receives more than \$25,000 in noncash contributions for the year.

The FAQ recommend that the charity provide the donor with the contemporaneous written acknowledgment required to substantiate a deduction for a charitable contribution of \$250 or more. They note that the charity is generally required to sign a [Form 8283, Noncash Charitable Contributions](#), presented by a donor claiming a charitable contribution deduction of more than \$5,000 for a virtual currency donation. By signing the Form 8283, the charity is not agreeing with the appraised value of the donated currency, but is instead acknowledging its receipt on the date specified on the form. If the charity sells, exchanges or otherwise disposes of the donated virtual currency (for example, selling it for real currency) within three years after the date of receipt, it must file [Form 8282, Donee Information Return](#) with the IRS and give the donor a copy of the form.

Two FAQ issued previously (Q33 and Q34) explain tax consequences to donors who contribute virtual currency to charity. The donor will not recognize income, gain or loss from the donation. The value of a deduction for a charitable contribution of virtual currency will generally be equal to the currency's fair market value at the time of the donation if the donor has held the currency for more than one year. If the donor has held the currency for no more than a year, the deduction's value will be the donor's basis in the currency or the currency's fair market value at the time of the donation, whichever is less.

Charities planning to accept contributions of virtual currency should update their gift acceptance policies to include virtual currency and establish procedures for accepting, safeguarding, disposing of and reporting virtual currency donations.

### Contact Us

For more information, please contact a member of our Nonprofit Group, or the author of this advisory: Eleanor Evans, 617.557.9711, [eevans@hembar.com](mailto:eevans@hembar.com).

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