Douglas County Community Foundation

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Professional Advisor News

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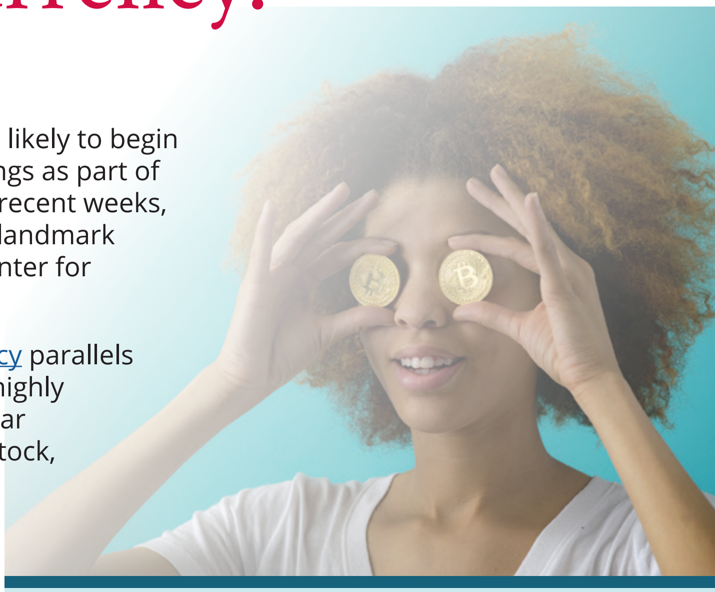
Charities and cryptocurrency:
Gifts are on the rise



As cryptocurrencies' profiles rise in the marketplace, your clients are likely to begin asking questions about the possibility of using cryptocurrency holdings as part of their charitable giving plans. Interest in this technique has spiked in recent weeks, especially after the University of Pennsylvania's announcement of a landmark $5 million gift of bitcoin to support the Wharton School's Stevens Center for Innovation in Finance.

In many ways, advising clients about charitable gifts of cryptocurrency parallels the strategies you routinely use to advise clients about a gift of any highly appreciated asset. Cryptocurrency gifts require documentation similar to what's necessary to substantiate gifts of real estate, closely held stock, and collectibles. Furthermore,

- In the case of cryptocurrency held by your client as an investment for more than one year, the rules for gifts of long-term capital gains assets apply. In this situation, the client's gift of cryptocurrency is valued at its fair market value at the time of the donation.
- The receiving charity must sign your client's IRS Form 8283 for your client to be eligible for the charitable deduction (unless the value of the gift is less than $500).
- A qualified appraisal is required for gifts with a value greater than $5,000.
- The recipient organization is required to file IRS Form 8282 if all or a portion of the cryptocurrency is sold or converted to cash within three years of the gift. As with gifts to charity of other appreciated assets, the charity does not pay tax on the gains.

The team at DCCF is ready to assist you and your clients who may wish to donate cryptocurrency to a donor-advised fund or other type of fund. For example, we take care of establishing an account with Bitpay, Coinbase, or other third-party processor to receive the gift. After that, our team is responsible for converting the cryptocurrency to cash so that your client's fund can be diversified to support the client's charitable giving goals.

The IRS has issued guidance for charitable gifts of cryptocurrency, including confirmation that the usual rules apply for a "contemporaneous written acknowledgment," even though cryptocurrency is treated and reported by the charity as a non-cash gift.

IRAs, field-of-interest funds, and designated funds: **Don't overlook these powerful tools**

A **field-of-interest fund** is established by your client for a charitable purpose they describe (for example, as to support research for rare diseases, to support organizations that assist homeless families in getting back on their feet, to enable art museums to acquire works that celebrate the region's diversity, etc). DCCF distributes grants from the field-of-interest fund according to the spending policy set by your client. Your client selects the name of the fund, whether they wish to use their own name (e.g., Samuels Family Fund or Samuels Family Fund for the Arts), maintain anonymity (e.g., Maryville Fund for the Arts), or something else altogether (e.g., Bettering Our World Fund). • A **designated fund** at DCCF is a good choice for a client who knows they want to support a particular charity or charities for multiple years. The distributions can be spread out over time to help with the charity's cash flow planning, enable your client to benefit from a larger charitable tax deduction in the current year when the client's tax rates are high rather than spreading it out over future years when tax rate projections are lower, or both. The client specifies the charities to receive distributions according to a spending policy they select, and they can choose a name for the fund.

Perhaps one of the most compelling reasons to encourage a retirement-age client to consider establishing one of these funds is to take advantage of the Qualified Charitable Distribution planning tool. As you know, clients who own IRAs are required to take "Required Minimum Distributions" each year beginning at age 72; however, they are permitted to transfer up to $100,000 from an IRA to a qualified charity instead of taking a Required Minimum Distribution, avoiding the resulting income tax hit. The IRS does not permit Qualified Charitable Distributions to donor-advised funds; however, field-of-interest funds, designated funds, and organization funds at DCCF are eligible.

Case study:

How to spot a prime CRT opportunity

Imagine that a client sits down at your conference room table and begins the meeting something like this:

"I've got a prime tract of land I bought for $200,000 just 10 years ago, and now I am sure I could sell it for $2 million because the market is so hot for new residential development in the area. I need to act fast because I am not sure how much longer this real estate boom will last."

What's your response? Before you suggest that your client put the property up for sale as soon as possible, consider asking a few more questions that could save your client a lot of money and help satisfy the client's income and charitable giving goals at the same time.

"That's fantastic," you say. *"Your current estate plan already includes bequests to hospice, animal rescue, and the art museum,"* you remind the client. *"There actually is a way to wrap those goals into your strategy for selling the land."*

"Hmmm," the client says. *"If it's all the same in terms of which charities receive money when I die, sure, I'm open to it."*

"Good," you respond. *"Now, remind me, does this property produce any income for you right now?"*

"Unfortunately, no," replies your client. *"I've never had time to develop the land, so it just sits there. At least the value has been going up."*

"With the technique I have in mind, you may be able to secure an income stream for the rest of your life, in addition to satisfying your charitable goals and capitalizing on the property's high value."

So what idea is on your mind for this client? (Hint: Its initials are CRT.)

A charitable remainder trust (CRT) is a "split interest" charitable planning tool that allows your client to transfer an asset (in this case, real estate) to an irrevocable trust, retain an income stream, and earmark what's left to pass to a charity or charities of the client's choice.

For example, in our hypothetical situation, your client could establish a fund at DCCF to receive the CRT's assets following the termination of the income stream — in this case, on the client's death. The client's fund at DCCF can provide for distribution of those assets to hospice, animal rescue, and the art museum according to the client's wishes.

Because the CRT qualifies as a charitable entity under the Internal Revenue Code, here's what happens from a tax perspective:

- When the client transfers the property to the CRT at a fair market value of $2 million with a cost basis of $200,000, and then the CRT sells the property, the CRT itself does not pay tax on the $1.8 million capital gain.
- This leaves the full $2 million in the trust to be invested, subject to the client's retained income stream.
- The client is eligible for a charitable tax deduction of the fair market value of the property given to the trust, minus the present value of the retained income stream.
- Payments to the client generally are subject to income tax during each year of the distributions, but under more favorable terms than if the client had conducted an outright sale.
- Because the CRT is an irrevocable trust, the property and its proceeds (other than what winds up in the client's estate from the retained income stream) are excluded from the client's estate for estate tax purposes.

Contrast this with an alternative scenario in which your client sells the property, realizes a $1.8 million capital gain, pays tax on that gain, and ends up with, say, $1.5 million (probably less) with which to invest, give to charity, and draw from for income. And, in this situation, the proceeds would be included in the client's estate for estate tax purposes.

When you spot a client who could benefit from a CRT, give us a call. DCCF is happy to help you as you serve your clients from the moment a client walks in the door through fulfilling the client's wishes after the client passes away.

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