

Digital Assets and How They Affect Your Institution

Digital assets continue to be an area of focus for higher education institutions. From how to value those items to wild fluctuations in stated prices to how holding these assets might affect your financial position and financial responsibility scores.

Your institution should ensure that you have a Gift Acceptance Policy in place – and that it covers “digital assets.”

Crypto currencies, Non-fungible tokens, and other items can be difficult to value and even more “funky” to understand. An important concept in the digital asset valuation arena involves a qualified appraisal – needed or not?

Interestingly (or not), digital assets are defined in section 6045(g)(3)(D) as – “...the term ‘digital asset’ means any digital representation of value which is recorded on a cryptographically secured distributed ledger or any similar technology as specified by the Secretary.”

On January 13, 2023, the IRS issued Chief Council Memorandum CCA 202302012. The subject of this “advisement” is: “Qualified appraisal requirement for charitable contributions of cryptocurrency.”

This memo specifically disallows utilizing a valuation for donations of crypto currency greater than \$5,000 based on a value listed at the cryptocurrency exchange. The donor must obtain a qualified appraisal. This differs from the treatment of contributions of publicly traded securities.

The memo contains a lot of technical data, but there is a section of facts that is followed by issues and conclusions. Reviewing this information may be very helpful.

Facts

Taxpayer A is an individual who purchased units of Cryptocurrency B for personal investment purposes. Taxpayer A acquired units of Cryptocurrency B in a transaction on a cryptocurrency exchange. Taxpayer A later transferred all of her units of Cryptocurrency B to Charity, a charitable organization described in section 170(c). On her self-prepared Federal income tax return for the year of the donation, Taxpayer A completed Part I, Section B of Form 8283 and attached it to her return and claimed a charitable contribution deduction of \$10,000. The claimed \$10,000 deduction was based on a value listed at the cryptocurrency exchange on which Cryptocurrency B was traded at the date and time of the donation. Taxpayer A did not obtain, or attempt to obtain, a qualified appraisal for the donation, and Taxpayer A argues that no appraisal is required because Cryptocurrency B had a readily ascertainable value based on the value published by the cryptocurrency exchange.

Issues

1. Is Taxpayer A required to obtain a qualified appraisal under section 170(f)(11)(C) of

the Code for contributions of cryptocurrency for which Taxpayer A claims a charitable contribution deduction of more than \$5,000?

2. If Taxpayer A is required to obtain a qualified appraisal under section 170(f)(11)(C) of the Code and fails to do so, does the reasonable cause exception provided in 170(f)(11)(A)(ii)(II) apply if Taxpayer A determines the value of the cryptocurrency based on the value reported by a cryptocurrency exchange on which the cryptocurrency is traded?

Conclusions

1. Yes. If Taxpayer A donates cryptocurrency for which a charitable contribution deduction of more than \$5,000 is claimed, a qualified appraisal is required under section 170(f)(11)(C) to qualify for a deduction under section 170(a).

2. No. If Taxpayer A determines the value of the donated cryptocurrency based on the value reported by a cryptocurrency exchange on which the cryptocurrency is traded rather than by obtaining a qualified appraisal, the reasonable cause exception provided in 170(f)(11)(A)(ii)(II) will not excuse noncompliance with the qualified appraisal requirement, and Taxpayer A will not be allowed the charitable contribution deduction under section 170(a).