Cryptocurrency: The Next Gifting Frontier

by Viken Mikaelian | April 1, 2021

Ethereum. Doegecoin, Ripple, Litecoin. Stellar. Bitcoin.

Unless you're familiar with cryptocurrency, those names probably look like something straight out of a science fiction story. But it's no fiction: Cryptocurrency present a huge—and largely untapped opportunity—crypto for short—is a blanket term that covers a wide array of digital currencies that can be used to buy goods and services just like cash.

The catch is that so far, only some companies accept crypto; and even then, only certain types of crypto. However, the number of companies accepting crypto for goods and services increases every day. Square, Venmo and Paypal have all made moves to accept crypto as payment, and also to allow customers to buy and sell crypto.

The allure of crypto is twofold. It's said to be more secure than traditional payment methods because it's powered by an encryption technology called blockchain. It also eliminates the middleman: banks. That's said to result in fast transactions with lower fees; act as a hedge against inflation; and allow it to serve (eventually) as an international currency.

Bitcoin, the most well-known cryptocurrency, was introduced about 12 years ago and is credited with ushering in the crypto craze. According to CNBC, if you'd purchased $100 of bitcoin in July 2010, it would be worth approximately $48 million now.

No, that's not a misprint.

Like most of us, you probably missed out on that original opportunity. The good news for your nonprofit is that a lot of other people didn't—and these so-called Crypto Whales are feeling pretty philanthropic.

That's where Chase Magnuson and Robert Steele, with their backgrounds in real estate and cryptocurrency, come in. "Bob and I are approaching this using our expertise on behalf of donors who want to fund various gifting arrangements in converting over the liquidation of cryptocurrency to buy real estate," says Magnuson, president of Real Estate for Charities (realestateforcharities.org).

There are thousands of types of cryptocurrency, representing trillions of dollars of value, and it's traded on hundreds of different exchanges. "The market is enormous," says Steele, owner of Robert W. Steele Real Estate and co-owner of crypto-company Rexnet (rexnet.io). "And the Crypto Whales have enormous wealth building up in these coins. They can use gifting to recognize some tax benefits. This a new asset, a new world. It's a whole new opportunity for the charitable world," he says.

Magnuson agrees: "A huge market in the gifting arena is developing," he says. "Charities ask for stock, bonds, cash, even real estate, but they are not thinking about crypto as a funding source for a charitable remainder trust."

Currently, the U.S. Treasury classifies cryptocurrency as either a commodity or intangible property (though that may change). Magnuson says at this point, most crypto donations are straight donations. “Cryptocurrency is also being given to nonprofits in donor advised funds,” he says. “The charities then liquidate the cryptocurrency, convert it over to cash, and then have it sitting in the DAF waiting to be distributed annually.”

But the duo is suggesting a third mechanism that will benefit both the charitable world and the donor at the same time: exchanging it for real estate via a Charitable Remainder Trust.

“The problem with cryptocurrency, aside from it being heavily taxed, is that it doesn’t produce any income,” Magnuson says. “People buy it; they speculate on it. They hold it for some period of time. They don’t really want to sell it. It’s purely speculation; an investment-type of asset. So what we’re suggesting is that donors who are philanthropically inclined take the cryptocurrency and put it in a charitable remainder trust.”

This plan would allow the donor to remain the CRT’s trustee. The trust, managed by the donor, would convert the cryptocurrency to cash—while also netting the donor significant tax benefits—and then Steele and Magnuson would use the cash to buy income-producing real estate. Once these steps have been completed, the donor would resign as trustee and select a replacement to manage the trust. “I know of only one such arrangement that’s been done in the country, so this is leading-edge, but completely consistent with the rules and regulations of a charitable remainder trust,” Magnuson says.

Magnuson provided a breakdown of the gifting strategy using a theoretical donor who had purchased $50,000 in cryptocurrency that has increased in value to $500,000:

1. Donor placed crypto in a CRT producing 5% lifetime income
2. Donor is 65 years old
3. Projected income value of $200,000
4. Charitable deduction $300,000
5. Deduction used against 30% of annual AGI
6. Has six years to use the deduction
7. Tax saving of $105,000 (assuming donor is in 35% combined tax bracket, state and federal)
8. Funds their legacy to one or more charities
9. Crypto sold within CRT and income-producing real estate is acquired

The advantages to the donor, Magnuson says, are that “within that income stream they get some charitable tax deductions with the gift, and they get to spread their capital gains out over their life. It’s a way for a crypto asset owner to start to bifurcate their assets into one of these charitable remainder trusts. Then they get a tax benefit, an income stream, and they become a philanthropist and leave a legacy.”

In order to claim a charitable deduction for a cryptocurrency gift, the donor would need to have it appraised, just like any other gift. Steele and Magnuson have located appraisers who can provide the present value of whatever type of cryptocurrency it is.

“If it’s illiquid, it has practically no value in funding a CRT—there’s a lack of revenue source for purchase of replacement real estate,” Magnuson says. “However, if it’s one of the top 500 cryptocurrencies listed on Coinmarketcap.com, meaning it’s liquid and can be converted within hours, an appraiser can determine what the value of the crypto is. Once it's into the trust, the donor who owned the Bitcoin will convert it by selling it. The donor knows how to sell it—the nonprofit isn't even involved—and then all we're dealing with is cash, which is something gift officers can work with."

And best of all, there's no risk to the charity. "If a charity accepted a Bitcoin gift and didn't sell it, they are no worse off than if it had not been given to them," Magnuson says. "Now, if they are using it to set up a donor advised fund that has to pay out 5 percent a year to meet its requirement, they can only take cryptocurrency that they can convert. But there are service providers that can convert Bitcoin. So the charity is not in any risk position."

Cryptocurrency clearly marks a new era in philanthropy, and charities that don't accept it risk missing out on millions. It's imperative that gift officers become familiar with the basics of crypto; ensure it's added to their organization's gift acceptance policy; and, once a crypto gift has been accepted, that they gather all information needed to comply with federal and state reporting requirements.

For more information about setting up a crypto-to-real-estate CRT, send an email to Chase Magnuson at ChaseMagnuson@msn.com or Robert Steel at itsinfinite123@gmail.com.

Chase V. Magnuson has over 40 years of experience in the real estate industry, with an extensive background in facilitating donations of individual, corporate, and commercial investment real estate. He developed marketing material of guidelines for donations of real estate for charities and donors and has conducted training sessions across the country to help others learn how to make gifts of real estate beneficial to each party. In 2020, he coauthored the book The Secret Power Behind Real Estate Donations.

Chase earned a B.S. from Ball State University in Muncie, Indiana. He holds the elite designation of CCIM (Certified Commercial Investment Member), and he is a Certified International Property Specialist (CIPS), a Senior Real Estate Specialist (SRES), and a member of the International Council of Shopping Centers and the Corporate Real Estate Network.

For more information on this subject, please contact:

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