December 2024

2024 Year-End Tax Strategies for Crypto Investors

2024 has been a great year for investors in cryptocurrency, with Bitcoin reaching all-time highs.

But your high profits can trigger high taxes.

Key point. To trigger taxes, you must sell or use the crypto to buy things.

That said, let's return to the issue at hand—your high profits can trigger high taxes.

Fortunately, you can put several strategies into play before year-end to reduce not only your 2024 crypto taxes but also your future crypto taxes.

Step-Up Tax Basis with Tax-Gain Harvesting

If you expect your income to be higher next year and your crypto to continue to appreciate, it could be wise to step up your basis in your crypto by harvesting tax gains.

It works like this: You sell your crypto this year and realize your gains. You then repurchase the position. As a result, your tax basis in the crypto is stepped up to the current price.

Example. You purchased one Bitcoin for $20,000 two years ago—your basis is $20,000. You sell the Bitcoin in December 2024 for $80,000, realizing a $60,000 long-term capital gain, which you'll pay tax on at the 15 percent long-term capital gains rate. You immediately repurchase one Bitcoin for $80,000.

Now your basis is $80,000. If Bitcoin goes up to $100,000 next year (or in any future year), you'll have only a $20,000 taxable gain instead of an $80,000 gain.

Key point. Remember, if you've held your crypto for less than one year, you'll have to pay tax on your gain at ordinary income rates, not the long-term capital gains rate (15 percent for most taxpayers). If you have a short-term gain, you could be better off waiting until next year to sell, when you will owe the lower capital gains tax rate.

Harvest Your Losses

With Bitcoin at all-time highs, you may not have any crypto losses. But you could have losses if you invested in other forms of crypto. If so, you should think about selling your losers before the end of the year. Your losses are capital losses that you may fully deduct from any capital gains you realize during the year, such as gains from selling other crypto or stocks at a profit.

If you owned the crypto for less than one year, your losses are short-term capital losses.

Losses for crypto held for more than one year are long-term capital losses.

Here are the three steps to follow when identifying your tax losses:

1. You must first use short-term capital losses to offset short-term capital gains.
2. You must first use long-term capital losses to offset long-term capital gains.
3. Once your losses in one category exceed your gains, you can apply the remaining losses to gains in the other category.

If your losses exceed your capital gains for the year, you can use your remaining losses to offset up to $3,000 in personal income this year and carry any unused losses over to future years to offset future gains or income.[1]

Wash Sales

What about the wash-sale rule that blocks you from claiming a capital loss when you repurchase the same or a "substantially identical" security within 30 days before or after the sale?

Fortunately, the wash-sale rules that apply to stocks and other securities don't apply to cryptocurrency because the IRS treats it as property, not as a security.[2] Thus, you can repurchase the same type of crypto without observing the 30-day (before or after) waiting period.

Example. You purchased 10 Altcoins for $10,000 in January 2024. By December, the price dropped to $800 per Altcoin. You sell all 10 Altcoins on December 30 for $8,000 cash, realizing a $2,000 short-term capital loss that you can use to offset other capital gains incurred during the year. You can reinvest your $8,000 cash into Altcoins or any other cryptocurrency. There is no need to wait 30 days after the sale to do so, since the wash-sale rules don't apply.

Donate Crypto to Charity

If you're charitably inclined and you itemize your deductions, donating appreciated crypto to charity is a great tax strategy. You'll not only help a charity, but also get two terrific tax benefits:

1. You avoid the capital gains taxes on your appreciated crypto donation.
2. You obtain a charitable contribution deduction equal to the value of the crypto at the time of the donation.

To get the charitable deduction, you must donate your crypto to a Section 501(c)(3) charitable organization. There are several directories for such organizations.[3] Many charities accept crypto donations directly. You also have the option to make donations through online cryptocurrency platforms such as The Giving Block.

Alternatively, you can set up a donor-advised fund (DAF) to contribute cryptocurrency. This way, you can deduct your entire contribution in 2024 and then distribute the money to any number of charities over any number of future years.[4] You need to open a DAF account with a sponsoring organization and gift your crypto to it. Not all DAF sponsors accept crypto, but many do—including Fidelity Charitable, the nation's largest DAF.

To benefit from your charitable contributions, you must itemize your personal deductions on Schedule A. If you don't itemize, you get no tax benefit from a donation. You should itemize only if your total personal deductions (charitable contributions and other personal deductions such as mortgage interest and property taxes) exceed your standard deduction, which (for 2024) is $14,600 for singles and $29,200 for marrieds filing jointly.

When you donate crypto directly to charity, you do not recognize income, gain, or loss from the donation. Instead, you get to deduct the value of the crypto, which is treated as a donation of property, similar to donating stocks or other securities.

- If you've held your crypto for more than one year, you may deduct its fair market value on the date of the donation.[5]
- If you've owned the crypto less than one year, your charitable donation is limited to the *lesser* of the crypto's basis or fair market value.[6] Thus, if crypto held less than one year has appreciated, your donation is limited to its basis.

There is an annual limit on your deduction for charitable contributions. For appreciated crypto, the limit is 30 percent of your adjusted gross income (AGI).[7]

Example. Jane purchased one Bitcoin for $20,000 two years ago. She donates it to the Red Cross on December 30, 2024. On that date, its fair market value is $85,000. Jane gets an $85,000 charitable deduction, which she can fully deduct from her $350,000 AGI.

1. The $85,000 deduction saves Jane $29,750 in income tax at her 35 percent marginal tax rate.

2. The donation allows Jane to pay zero taxes on the $65,000 capital gain ($85,000 - $20,000).

Key point. This one donation by Jane triggers two tax benefits: the tax deduction and no tax on the profits.

If Jane wishes, she can use the tax savings to purchase more Bitcoin.

When you make a donation of crypto, you need to obtain a written acknowledgment from the charitable organization, setting forth[8]

- the organization's name,
- the date and location of the donation,
- a description of the donation (e.g., "Bitcoin"), and
- a statement that no goods or services were provided in return for the donation (if that is the case).

If you donate more than $5,000 in crypto (including to a DAF), you must obtain an appraisal from a qualified appraiser and attach it to your tax return along with IRS Form 8283, Noncash Charitable Contributions.[9] (You can find crypto appraisers online.) The charitable organization must acknowledge receipt of the crypto and confirm it's a qualified organization, by completing and signing Part IV of Section B of Form 8283.[10]

Gift Crypto

Would you like to give some crypto to a child, a grandchild, a spouse, or another loved one? For 2024, you are allowed to gift up to $18,000 to an unlimited number of people without triggering any tax or reporting obligation for you or the recipients. If you're married, you and your spouse may gift $36,000.

The annual gift tax exclusion is a use-it-or-lose-it opportunity. If you do not make a gift this year, you cannot double your exclusion for 2025.

If your gifts exceed the annual exclusion, you'll need to file a gift tax return on IRS Form 709. This is an informational return. You won't have to pay any gift tax unless your total lifetime gifts exceed the lifetime gift tax exemption, which is $13.61 million for 2024 ($27.22 million for married couples).

By the way, you do not need to file Form 709 if you gift cryptocurrency or other assets to your spouse.

A gift you make to an individual is not tax-deductible by you, and it is not taxable income for the recipient until he or she sells or otherwise disposes of it.[11]

Example. Saul has 0.10 Bitcoin he purchased for $1,500 that is now worth $10,000. He gifts the Bitcoin to his granddaughter. He does not have to pay any capital gains tax on his $8,500 gain. His granddaughter does not have to report any income either. Nor is there an IRS reporting requirement, because the value of the gift is less than $18,000.

It's a good idea to draft a letter to the gift recipient, including:

- The names of the gift giver and recipient
- A description of the cryptocurrency being gifted, including the name and amount of each cryptocurrency included in the gift
- The date the giver acquired the cryptocurrency
- The giver's adjusted cost basis for the cryptocurrency
- The date of the gift
- The fair market value of the gift at the time of transfer
- A statement from the giver that the transfer was a gift to the recipient with no expectation that it be paid back

The gift recipient should keep the letter in his or her tax records.

Establish a Self-Directed IRA for Crypto

If you're looking to purchase more crypto, you should consider doing so through an IRA. This must ordinarily be a self-directed IRA (SDIRA), not a conventional IRA you establish with a bank, brokerage, or trust company. These conventional IRA custodians typically do not permit your IRA to purchase crypto directly, though many of them will permit you to invest in crypto exchange-traded funds (ETFs).

You need to choose an IRA custodian that permits self-directed investments, including investments in crypto. There are dozens of them. SDIRAs are also commonly used to invest in real estate, gold, and other alternative investments.

Your SDIRA can be either a traditional IRA or a Roth IRA. With a traditional IRA, you get to deduct your contributions up to an annual limit. For 2024, the limit is $7,000, or $8,000 if you're 50 or older. Withdrawals after age 59 1/2 are taxed at ordinary income rates (not capital gains rates).

With a Roth IRA you get no deduction for the contribution, but earnings are not taxed when you take distributions provided you are over age 59 1/2 and have owned the account for five years.

After opening your SDIRA account, you'll need to fund it. You can't transfer your existing crypto holdings into an SDIRA because the IRS requires IRAs to be funded with monetary contributions like cash. However, you can sell your crypto and then use the money to fund your SDIRA. You can also transfer money from an existing IRA or 401(k), make other cash contributions, or roll over a 401(k) into your SDIRA.

If you sell crypto or other property in an SDIRA, you don't need to pay personal tax on any profit. You pay tax only when you withdraw money from a traditional IRA—so instead of selling crypto and then withdrawing the money from your IRA, you can withdraw your holdings as crypto.

Establishing and contributing to an SDIRA is not exactly a year-end strategy, because you have until April 15, 2025, to do so for the 2024 tax year. But it's something to consider as the year comes to a close, as part of your tax-saving strategy for 2024.

Establish a Self-Directed 401(k) for Crypto

What about using a 401(k) to purchase crypto? Most employer 401(k)s don't allow this. But some do, so check with your employer plan. If you're self-employed and you have no employees other than your spouse, you can establish a self-directed solo 401(k) and use it to purchase crypto.

Like IRAs, solo 401(k)s can come in two flavors: regular (tax-deductible contributions) or Roth, with the same tax benefits. But not all solo 401(k) plan providers have a Roth option.

The big advantage self-directed solo 401(k) plans have over SDIRAs is that the contribution limits are much greater. For 2024, you can contribute up to $69,000 ($76,500 if age 50 or older).

The code breaks the limit into two parts:

- **Employee contributions.** You can contribute up to $23,000 as an employee ($30,500 if age 50 or older).
- **Employer contributions.** The employer (your corporation, or you if self-employed) can make an additional profit-sharing contribution of up to 25 percent of your compensation or net self-employment income.

You need to find a self-directed 401(k) plan provider that permits investments in cryptocurrency. You must adopt a written plan and then set up a trust or custodial account with your plan provider to invest your funds.

You need to establish and fund your 401(k) by year-end, so act fast.

Takeaways

You have multiple year-end tax strategies to reduce taxes on cryptocurrency profits:

1. If you have any crypto that has declined in value since purchase, sell it before the end of the year to realize a capital loss, which you can deduct against capital gains plus an additional $3,000 in ordinary income.
2. Step up your basis in appreciated crypto by selling it, realizing your gains, and then repurchasing your position. The result: your tax basis in the crypto is stepped up to the current price.
3. Donate appreciated crypto to charity. If you've held the crypto for more than one year, you may deduct its full current market value as a charitable donation if you itemize. If you donate more than $5,000 in crypto, you must obtain an appraisal from a qualified appraiser.
4. Gift crypto to loved ones. You may give up to $18,000 to an unlimited number of people without having to file a gift tax return. If you're married, you and your spouse may gift $36,000. Gifts are not deductible by the donor and are not taxable income for the recipient.
5. Establish a self-directed IRA or self-directed solo 401(k) to purchase crypto. These may be regular (tax deductible) or Roth IRAs or 401(k)s.

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1 IRS Topic No. 409—Capital Gains and Losses, updated Oct. 16, 2024.
2 IRS Notice 2014-21.
3 See, e.g., Charity Navigator; GuideStar.
4 IRC Section 170(f)(18).
5 IRS Frequently Asked Questions on Virtual Currency Transactions, updated Sept. 13, 2024, Q. 35.
6 Ibid.
7 IRS Publication 526, Charitable Contributions (2023), dated Feb. 29, 2024, p. 15.
8 IRS Frequently Asked Questions on Virtual Currency Transactions, updated Sept. 13, 2024, Q. 35.
9 CCA 202302012.

10 IRS Frequently Asked Questions on Virtual Currency Transactions, updated Sept. 13, 2024, Q. 36.
11 Ibid., Q. 32.