Cryptocurrency Considerations for Nonprofits

By Christopher M. Gordon, Partner

Cryptocurrency, especially Bitcoin, is receiving a great deal of attention, and many nonprofit leaders have questions about how their organizations might be able to benefit from this digital currency.

The popularity of Bitcoin has increased exponentially over the past several years as its value has grown at unprecedented rates. Cryptocurrency began to achieve mainstream acceptance in 2014, when companies such as Microsoft and Overstock began accepting Bitcoin. More recently, Tesla announced that customers can purchase its vehicles using Bitcoin. And Coinbase, a cryptocurrency exchange platform, completed its initial public offering (IPO) on the Nasdaq on April 14, 2021.

This article is not meant to be a primer on cryptocurrency or blockchain, the technology it is built on, but rather to address financial reporting, tax compliance, and other considerations nonprofit organizations should think through before accepting or using cryptocurrency.

Application

Many nonprofit organizations have questions about how they should approach cryptocurrency. Here are answers to some of the most common ones.

Why should a nonprofit organization consider accepting Bitcoin and other cryptocurrencies? Simply put: because it has value. Nonprofit organizations already accept a variety of noncash assets, including cars, boats, houses, and intellectual property. Cryptocurrency's current market valuation makes it attractive to donors to contribute for tax-planning purposes. Donors can contribute a highly appreciated asset and avoid income tax on the unrealized appreciation.

If your organization decides to accept cryptocurrency, be sure to include it in your gift acceptance policy.

How can we accept Bitcoin and other cryptocurrencies? There are several cryptocurrency trading platforms available today, including Coinbase and Robinhood. More are on the way, with many brokerage firms beginning to consider a cryptocurrency platform. Each platform has advantages and drawbacks so it's important to research the differences among them, including pricing and ease of use.

What steps should we take when someone donates cryptocurrency to our nonprofit organization? The first step is proper tax reporting. A contribution of cryptocurrency valued at more than $250 requires a standard noncash donation receipt. In addition, the IRS has classified cryptocurrency as property, not currency. Therefore, a donor must file Form 8283, *Noncash Charitable Contributions,* to receive a charitable deduction if the property is over $500. Further, if the contribution is valued at more than $5,000, the donor must receive a qualified appraisal prepared by a qualified appraiser to substantiate the valuation and the organization receiving the donation must sign Form 8283. However, it is unclear if the cryptocurrency markets are sufficient to establish the valuation. These articles from the AICPA and the Planned Giving Design Center include information on cryptocurrency valuation.

An organization that sells cryptocurrency within three years of receiving it will be required to complete Form 8282, which could impact the donor. Another feature of cryptocurrency is that sales resulting in gains are not subject to unrelated business income.

Are there other considerations? If your organization decides to accept cryptocurrency, be sure to include it in your gift acceptance policy. This will guide your finance team in knowing whether to accept the transaction and the steps to take after it is received.

What if we hold cryptocurrency? What financial reporting considerations should there be? The first step is to understand where cryptocurrency should be reported on the balance sheet (statement of financial position). The Financial Accounting Standards Board (FASB) has not issued formal guidance on the question, but the topic is currently under consideration. Nonauthoritative literature has provided an analytical framework based on current FASB guidance, which excludes it from being reported as cash, a non-cash financial asset (investment), or inventory because it does not meet the definition of those three classifications.

Therefore, it leaves cryptocurrency to be reported as an indefinite-lived intangible asset according to FASB ASC 360-30. Under this guidance, cryptocurrency is held at cost and evaluated for other-than-temporary impairment. When material, it should be broken out onto its own line for intangible assets and disclosed.

So why *shouldn't* a nonprofit organization begin accepting and investing in cryptocurrency? Risk. The valuation of Bitcoin and other cryptocurrencies continues to remain volatile, so the short-term fluctuations should be considered as part of your overall portfolio risk. Cryptocurrency is not a fiat currency (a currency with government backing), and it could potentially turn worthless if the demand declines. It also is not an investment in a corporation creating products or services that could be evaluated and monitored.

Then there are risks related to where Bitcoin is stored. Digital wallets are only as reliable as the computer they are stored on. For example, if Bitcoin is stored in a digital wallet on a computer hard drive that becomes corrupted and is not backed up, there is a good chance the owner will not be able to retrieve the Bitcoin. Additionally, Mt. Gox was one of the most prominent Bitcoin exchanges in the world when, in 2014, all withdrawals were halted. It was speculated that the company lost hundreds of thousands of bitcoins due to theft, which has not been uncommon with other exchanges as well.

Final Considerations

We recommend that you update your organization's gift acceptance policy to state whether or not your organization will accept cryptocurrency and if so, whether it should be held or sold immediately.

It's also vital to establish clear, documented controls and monitor the account. If only one person, such as the CFO or Director of Finance, has access to the account, there is opportunity for embezzlement.

This is not meant to be an exhaustive list of considerations, but rather a general overview to help you start thinking about key cryptocurrency considerations. If your organization has questions, we recommend consulting with your accountant on tax and financial reporting issues, with an attorney on legal and compliance considerations, and with an investment advisor on investment, acceptance, purchase, or sales of cryptocurrency.

About the Author

Christopher M. Gordon, Partner
cgordon@capincrouse.com
o 505.50.CAPIN ext. 1602

Christopher joined CapinCrouse in 2006 and has nearly 15 years of experience providing attest and consulting services to various nonprofit entities, including colleges and universities, churches, foundations, international mission organizations, and relief and development organizations. He is responsible for the oversight of audit engagements and also, as appropriate, for the recommendation of internal control structures and best practices.

About CapinCrouse

As a national full-service CPA and consulting firm devoted to serving nonprofit organizations, CapinCrouse provides professional solutions to organizations whose outcomes are measured in lives changed. Since 1972, the firm has served domestic and international outreach organizations, universities and seminaries, foundations, media ministries, rescue missions, relief and development organizations, churches and denominations, and many others by providing support in the key areas of financial integrity and security. With a network of offices across the nation, CapinCrouse has the resources of a large firm and the personal touch of a local firm. Learn more at capincrouse.com.

CapinCrouse is an independent member of the BDO Alliance USA.