What to Consider When a Nonprofit Enters the Cryptocurrency Arena

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In our previous articles, we have considered various reporting and tax implications associated with dealings in cryptocurrency; particularly, in ransomware situations. While a ransomware situation is one in which a business enters the cryptocurrency space unprepared by paying cryptocurrency ransom to gain back access to its networks, nonprofits are also feeling the pressure to enter the cryptocurrency ring, and many lack the infrastructure to manage these assets.

As several of the nation's largest charitable organizations, such as UNICEF, are now accepting cryptocurrency as a form of donation, many smaller nonprofits have started to consider whether this could be an avenue for fundraising in their space as well. While many donors see this as the giving of the future, some observers are concerned nonprofits will begin accepting cryptocurrency donations to keep up, without having the infrastructure to best utilize the asset.

One issue such organizations are facing is what to do with these donations. Some organizations have taken the position that it is more effective to immediately cash in on crypto donations rather than use time and resources to create and train a team within the organization to manage such assets. This is largely driven by the volatile nature of cryptocurrency's value as an asset. On the other side of the virtual coin, some organizations have seen this as an opportunity to solidify their place in the cryptocurrency market and have chosen to maintain these donations in their portfolio rather than liquidate immediately.

The adoption of cryptocurrency in the nonprofit world raises an important question: What is the true value of the donation? If a donor provides a cryptocurrency donation worth $100,000 today, the recipient could immediately liquidate the asset and receive $100,000; or, if the organization holds the donation, it could be worth much more or much less in a very short period of time, given the trading highs and lows of cryptocurrency value on any given

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day.

Considering the potential for evolving value, what are the tax implications for the nonprofit as well as the donor? One consideration is that some nonprofits and donors are turning to cryptocurrency because the nonprofit may, in essence, receive a larger donation than what was actually given. Because cryptocurrency is considered an appreciated asset for tax purposes, just as capital gains of other such assets that are donated to a nonprofit are tax-exempt, the capital gains from cryptocurrency donations are also exempt.

However, this tax benefit should not overshadow the implications of using cryptocurrency in the nonprofit space. One potential issue is that depending on how the transfer is made, how will the organization accurately track and record such donations? In furtherance of the nonprofit determining the proper value of the asset, how does a nonprofit describe the value of the donation when writing out a receipt? For organizations that are holding on to crypto rather than liquidating, could this be considered any type of "jeopardizing investment" if the organization is a foundation?

The answers to each of these questions are dependent on the facts and circumstances of each donation and each nonprofit recipient, at least until the IRS and other taxing authorities begin to issue guidance on this issue. Until then, it is always best to reach out to appropriate tax and business advisors when considering a foray into the cryptocurrency market. For more information on the tax implications of cryptocurrency transactions, contact Mark Sommer, Rachel Chamberlain, or Elizabeth Mosley of Frost Brown Todd's Tax Practice Group. You can also read about the latest in federal, state and local tax administration and tax-saving techniques on our Tax Law Defined Blog.

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