



This article presents general guidelines for Georgia nonprofit organizations and should not be construed as legal advice. Always consult an attorney to address your particular situation.

Accepting Cryptocurrency Donations

This article is geared towards small §501(c)(3) public charities.

Cryptocurrency is quickly becoming a popular form of currency, and a way to invest and make financial exchanges, particularly among younger generations. Cryptocurrency owners may even look to donate their cryptocurrency. A nonprofit's ability to accept cryptocurrency donations not only helps ensure that it is able to accept donations from all interested donors, but also that it is accepting donations in a form that is efficient and financially beneficial for both itself and the donor. Many large nonprofits such as the American Cancer Society, Greenpeace, The Water Project and the American Red Cross already accept a wide range of cryptocurrencies as part of their fundraising activities. This article provides background information for small nonprofits considering whether and how to accept cryptocurrency donations.

What is Cryptocurrency?

Cryptocurrency, such as Bitcoin, Ethereum, Dogecoin or Chainlink, is a store of value secured by encryption. Its value fluctuates based on supply and demand. The IRS has defined it as "a digital representation of value that functions as a medium of exchange, a unit of account, and/or a store of value." The IRS further provides that cryptocurrency is "[v]irtual currency that has an equivalent value in real currency, or that acts as a substitute for real currency."

Cryptocurrency can be used by owners to make financial transactions or exchanges effectively, including buying goods and services and making donations. It is currently an unregulated currency meaning there are no laws or regulations governing how it is created, held, sold, traded, used, etc. As a result, it has a "dark side" and may more easily be used for illegal purposes. In addition, there are always new types of cryptocurrencies popping up and some may be more reputable or reliable than others.

So what does all that mean? Buying cryptocurrency is like buying tokens at an arcade. You exchange real currency, like cash or checks, for cryptocurrency, which is considered property. In addition to using cryptocurrency to buy goods and services, different cryptocurrencies are traded on various exchanges for profit. Some platforms only trade one type of cryptocurrency while others are centralized exchanges trading various types. Popular centralized exchanges are Coinbase, Binance, Kraken, and Gemini. These exchanges are private companies that offer platforms to trade cryptocurrency. These markets tend to be very volatile.

Going back to the arcade analogy, the value of your tokens (cryptocurrency) can change dramatically each day. Maybe you paid \$10 total for 10 tokens yesterday, but

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today each token is worth \$5 because there is now a high demand for arcade tokens. When you turn in your tokens at the arcade today, you get back \$50. You can also use your tokens to play games or buy toys. The number of tokens you need for a particular game will depend on their value at that moment (a game that cost 2 tokens yesterday costs 4 tokens today). The same is true for cryptocurrency.

Why Cryptocurrency?

Accepting donations of cryptocurrency can be beneficial to both the donor and the recipient. Donations of cryptocurrency are tax-deductible **as donated property**, so such donations are not subject to a capital gains tax on any increased value from the time of purchase so long as the donor held the cryptocurrency for 12 months or more prior to the donation. The value of the cryptocurrency on the day of the donation is the value of the property received. We usually think of stocks as fluctuating somewhat like this, and the donation of stock is treated similarly.

In addition, cryptocurrency is very efficient in that:

- Transactions are completed in a single day.
- Foreign donors do not need to exchange currency.
- There are low transactional costs.
- Charities can immediately sell the cryptocurrency for US Dollars reducing its risk due to volatility.
- The transactions are public, which is helpful for a nonprofit looking to maintain transparency.

Before Accepting Cryptocurrency Donations

It is recommended that your board of directors discuss and determine whether to accept gifts of cryptocurrency and what to do with the donations upon receipt. It is strongly recommended that small nonprofits sell cryptocurrency immediately upon receipt due to its extreme volatility. You should update your gift acceptance policy to reflect the board's decision.

How to Accept Cryptocurrency Donations

A nonprofit must first create a "wallet," or an account within an online application/exchange that allows one to hold cryptocurrency. Many different applications/exchanges allow for the purchase and transfer of cryptocurrency, such as Coinbase, BitPay, Gemini, and The Giving Block. Other online brokers like eToro, Tradestation and Robinhood also allow for cryptocurrency purchase and transfer. Thus, you simply need to make and maintain a wallet through an application or exchange that will allow it to accept a cryptocurrency gift. You can add the wallet address to your donation page on your website for accessibility. A donor simply needs to obtain the address of a verified nonprofit's wallet to donate cryptocurrency.

Some recommendations when choosing and setting up an online application or exchange:

- Choose an application or exchange that is reputable and more commonly known. Do your research!
- Don't allow anonymous donations to your wallet.
- Limit the type of cryptocurrencies accepted by your wallet so you only accept more common and reputable types of cryptocurrencies.
- Do not offer anything of value (goods or services or even corporate sponsorships) in exchange for the cryptocurrency donation as the value of cryptocurrency is uncertain and can change dramatically day to day.
- Due to the volatility of cryptocurrency, set up your wallet to automatically sell any donated cryptocurrency immediately for US dollars.

Tax Reporting and Donation Receipt

Acknowledging cryptocurrency is the same as acknowledging a non-cash, property donation. The recipient must include on a donation receipt whether any goods or services were provided in exchange for the donation and, if so, the fair market value of the goods or services. Due to its volatility, we recommend that small nonprofits sell any donated cryptocurrency immediately. *If cryptocurrency is sold immediately or at least within three years of receiving it, the following steps should be taken based upon the value of the cryptocurrency donation:*

1. Cryptocurrency donation valued under \$500: Send the donor an acknowledgement that includes the nonprofit's name and address, the date of contribution, the type of cryptocurrency, the amount donated, and whether goods or services were provided in return.
2. Cryptocurrency donation valued at \$500 to \$4,999: Send the donor an acknowledgement that includes: (a) the nonprofit's name and address, (b) the date of contribution, (c) the type of cryptocurrency, (d) the amount donated, (e) whether goods or services were provided in return, (f) a statement certifying that the nonprofit sold the cryptocurrency in an arms-length transaction between unrelated parties, (g) the date of the sale, (h) the amount of the gross proceeds received from the sale, and (i) a statement that donor's deduction may not exceed the gross proceeds of the sale. The donor will need to complete Form 8283.
3. Cryptocurrency donation valued at \$5,000 or more: The same acknowledgement in #2 above applies. In addition, the nonprofit will need to file Form 8282 and will likely need to sign Form 8283 Part B for the donor. Form 8282 must be filed within 125 days after you dispose of the cryptocurrency. Further, Form 8282 requires you to identify the donor and the amount the nonprofit received upon disposition of the cryptocurrency. You must provide a copy of the completed Form 8282 to the donor.

Valuation

How much a donor can deduct is affected by two factors. First, if the nonprofit sells the cryptocurrency within three years of receipt, the donor's deduction is limited to the gross

proceeds received by the nonprofit from the sale. In addition, how long the donor held the currency prior to the donation affects the amount of the potential deduction:

- If over one year, deduction is equal to the fair market value of the currency at the time of the donation, or
- If one year or less, deduction is the lesser of the donor's basis (cost plus adjustments) in the currency or the currency's fair market value at the time of the contribution.

Accepting Cryptocurrency as a Form of Payment for Goods or Services

Due to the volatility of cryptocurrency, it's very hard to determine its true value at any given moment until it is sold on an exchange. As a result, if a small nonprofit accepts cryptocurrency as payment for goods or services that have fixed prices, the nonprofit will likely not know the actual value it received for the transaction until after the transaction is completed. Due to the nature of this more complex and less certain process, a nonprofit's board of directors should carefully consider and investigate the option before using its wallet to accept payment for goods and services.