



# Thank you for joining us!

The presentation will begin shortly

# Nonprofits and Cryptocurrencies – The Latest Accounting and Tax Landscape

*Tuesday, February 28, 2023*



CPAs & ADVISORS

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# Housekeeping

## Additional Information

<b>Learning Objective</b> To provide attendees with a better understanding of the cryptocurrencies and how to manage digital assets.	<b>Instructional Delivery Methods</b> Group Internet-based
<b>Recommended CPE</b> 1.0 CPE Credit	<b>Recommended Fields of Study</b> Business Management and Organization (Non-Technical)
<b>Prerequisites</b> None required	<b>Advance Preparation</b> None
<b>Program Level</b> Basic	<b>Course Registration Requirements</b> None
<b>Refund Policy</b> No fee is required to participate in this session.	<b>Cancellation Policy</b> In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.
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# Today's Presenters

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A portrait of Katelyn Miller, a woman with long brown hair, wearing a grey blazer over a black top. The portrait is set within a circular frame with a blue outer ring and a grey and white striped inner ring. A small logo in the bottom right corner of the portrait area reads "grf CPAs & ADVISORS".

**Katelyn Miller**  
Senior Manager



A portrait of Omid Mohebbi, a man with short grey hair, wearing a dark suit, white shirt, and purple tie. The portrait is set within a circular frame with a blue outer ring and a grey and white striped inner ring. A small logo in the bottom right corner of the portrait area reads "grf CPAs & ADVISORS".

**Omid Mohebbi**  
Manager



A portrait of Sokhna Aw, a woman with dark hair, wearing a red top and a necklace. The portrait is set within a circular frame with a blue outer ring and a grey and white striped inner ring. A small logo in the bottom right corner of the portrait area reads "grf CPAs & ADVISORS".

**Sokhna Aw**  
Audit Associate



# What we will cover today

- What are Cryptocurrencies?
- What are the specific issues that are relevant to nonprofits?
- The pros and cons.
- Accounting and auditing considerations.
- Tax implications.
- Key takeaways.



Katelyn Miller  
Senior Manager

# Polling Question #1

Has your organization received cryptocurrency yet?

- A. *Not yet*
- B. *What's cryptocurrency?*
- C. *Yes*
- D. *We've been approached regarding receiving cryptocurrency*

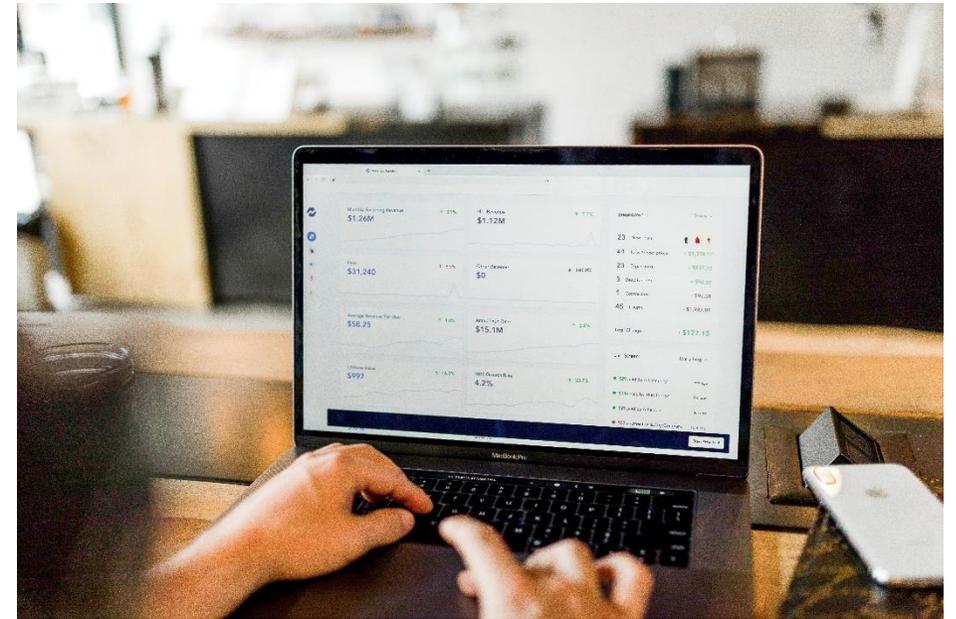
# What are Cryptocurrencies?

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- A form of virtual digital currency that can be used to purchase goods and services.
- Currency trading on a digital marketplace.
- Secure blockchain technology that ensures the integrity of transactions and data.
- Think of blockchain as a transparent database network.
- Computers across the network track and validate the transactions.
- Decentralized – for the most part, not controlled by central governments and other regulatory bodies.
- Well-known examples include Bitcoin and Ethereum.
- New forms of cryptocurrencies are created through a digital process called ‘mining’.

# Nonprofits and Cryptocurrencies

- Donor grants and contributions.
- No longer just a ‘flash in the pan’.
- Nonprofits need to be aware of the accounting, auditing and tax implications.
- Management and auditor required skillsets.
- Implications for overall business strategy.



# The Facts



- Younger generation very comfortable with digital currency.
- Millennials and Gen-Zs particularly philanthropic, now and in the future.
- Larger organizations are increasingly making cryptocurrency grants.
- The total donation volume to nonprofits through a leading third-party payment processor in 2021 was approximately \$69 million, an increase of 1,558% from 2020.

# The Facts (continued)

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- Three-quarters of Millennials consider themselves philanthropists, compared to only 45 percent of the total population (Source Fidelity Charitable)
- Increasingly mainstream – not just your teenage son or daughter sending you articles, web links and speaking about Bitcoins over dinner!
- Opportunity to attract a new donor base, while preserving existing donor base.
- Convert to and receive cash at the time of donation or hold onto the cryptocurrency and possibly liquidate later.
- Nonprofits already accepting cryptocurrencies include International Rescue Committee, Neurodiversity Education Research Center, Save the Children, Susan Komen, International Medical Corps, No Kid Hungry and American Cancer Society.

# Pros and Cons

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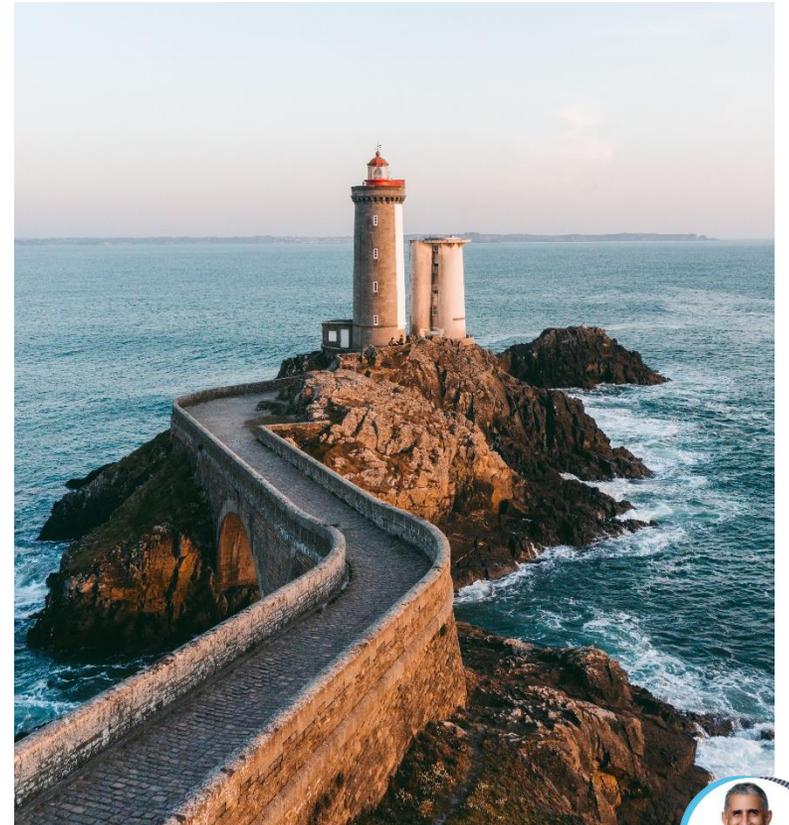
- Pros:
  - Substantial and increasing source of funds for nonprofits
  - Easy for both large and small donors to make donations, if the nonprofit has the right set-up.
  - International reach for donations
- Cons:
  - Environmental concerns, including the significant energy needed for digital ‘mining’ and transaction processing.
  - Market volatility
  - Challenges with technology and virtual unregulated nature of currency



# Gift Acceptance and Fundraising Strategy

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- Formal written policy to accept cryptocurrencies, similar to a donated stock policy.
- Policy should address:
  - Circumstances under which crypto donations will be accepted
  - Amounts and types
  - Maintain as cryptocurrencies or convert to cash at the time of donation
  - Use of third-party processors, exchanges and donor-advised funds
  - Procedures for review and approval of donations
- Include cryptocurrency logo on your website
- Update all existing donors about cryptocurrency acceptance.



# Options to Liquidate and Receive Cash

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- Three main options and each is more appropriate for particular nonprofits.
- **Option 1** – Use of an outsourced third-party payment processor.
  - Best option for smaller nonprofits with limited staff, and those who expect to receive contributions of lower value.
  - Examples of third-party payment processors are BitPay and The Giving Block.
  - Nonprofits receive contributions on their website, third-party payment processor liquidates crypto receipts to USD, and transfers the proceeds of liquidation to the nonprofit's bank account.
  - Third-party payment processor sends a contribution receipt to the donor.
  - % fees to pay, depending on the size of contributions and the nonprofit.
  - Very simple solution for smaller nonprofits.

# Options to Liquidate and Receive Cash (continued)

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- **Option 2** – Manage everything in-house and use a crypto-exchange service.
  - More suitable for larger nonprofits who expect to receive much larger donations.
  - Need larger internal staffing capacity.
  - Nonprofit opens an account with a crypto exchange such as Gemini.
  - Crypto exchanges operate in a very similar way to stockbrokers.
  - Fees to pay depending on the size and frequency of donations.
  - Advantages are lower trading costs due to managing internally.
  - Disadvantages - internal staff have to be fully trained about the technical side of trading and using the crypto exchange.

# Options to Liquidate and Receive Cash (continued)



- **Option 3 – Donor-advised funds (DAFs)**
  - The DAF accepts the crypto contributions on the nonprofit's behalf and liquidates to USD.
  - Provides the proceeds to the nonprofit as a 'grant' based on donor's preferences.
  - Fidelity Charitable is one organization that offers this DAF option.
  - Fees usually much higher.
- Best option depends on the size and staffing of the nonprofit, and the expected frequency and size of contributions.

# Environmental Concerns

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- Digital mining and associated energy consumption.
- Greenhouse gases and carbon footprint.
- Water consumption of power plants.
- Electronic waste – disposing of computers.
- Bitcoin Mining Council to promote energy transparency.
- The Crypto Climate Accord – more than 250 companies made a commitment to achieve net-zero emissions from electricity consumption associated with their respective crypto-related operations by 2030



## Polling Question #2

What are your organization's main concerns in regard to receiving cryptocurrency as a donation?

- A. *Digital waste*
- B. *Volatility of cryptocurrency*
- C. *Tax and accounting treatment of the donation*
- D. *All of the above*



# Accounting and Auditing

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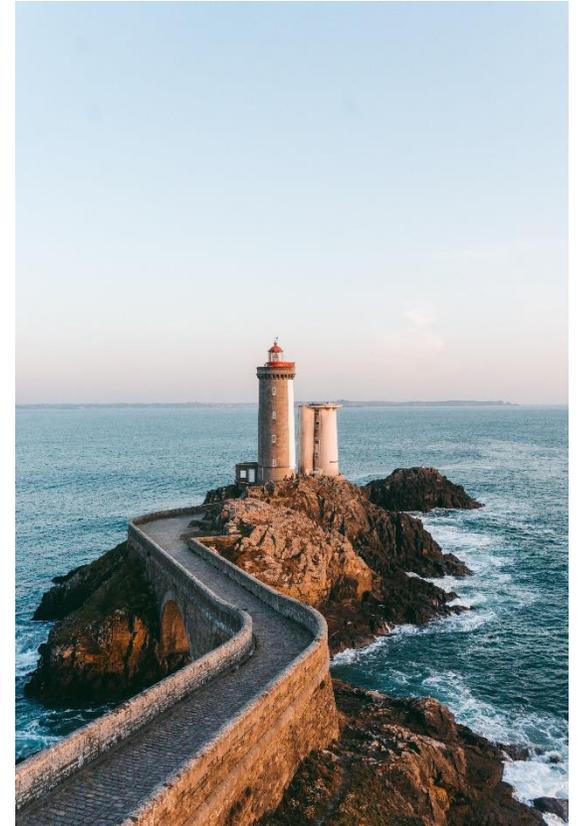


Omid Mohebbi  
Manager

# FASB Project Update

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- Accounting for and Disclosure of Crypto Assets (formerly known as Accounting for and Disclosure of Digital Assets)
- Objective: To improve the accounting for and disclosure of certain crypto assets.
- Current stage – Exposure draft will be released, followed by comment period, deliberations and then final standard.



# FASB Project Update

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## Background:

- May 2022 - FASB added the project to its technical agenda
- Dec 2022 – Discussed how entities that hold crypto assets **disclose** crypto assets in the financial statements.
- Affirmed that **disclosures** in Topic 820, Fair Value Measurement, would be required for crypto assets within the scope of this project.

# FASB Project Update - Disclosures

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- Decided to require an entity to disclose the following:
  1. The name of the crypto asset, fair value, units held, and cost basis.
  2. Reconciliation of activity between the beginning and end of the period for total crypto asset holdings.



# FASB Project Update - Disclosures

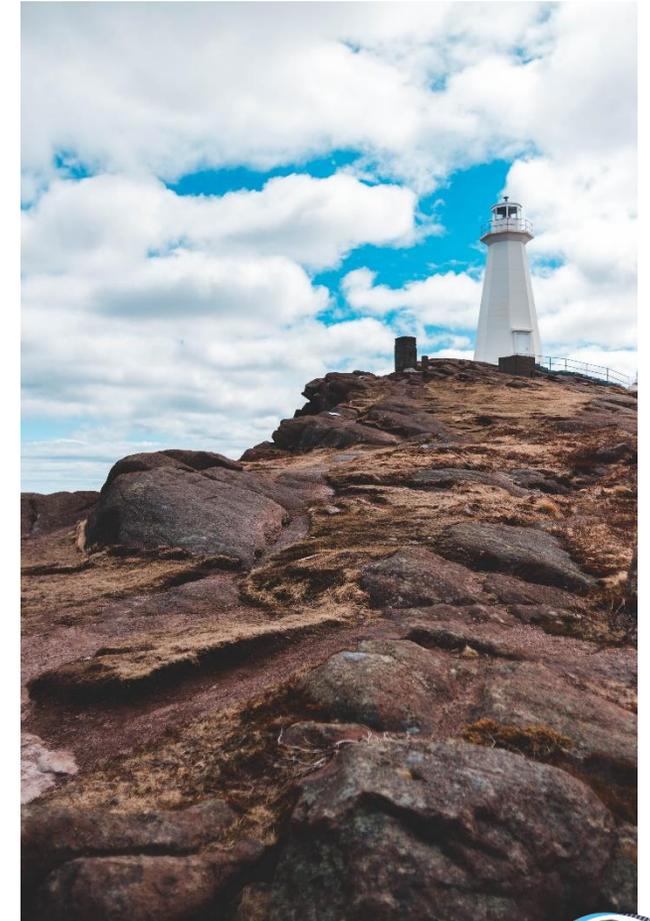


4. For disposition of crypto assets during the period, the difference between the sale price and the cost basis of those assets.
  5. Fair value of the crypto assets that are restricted from sale, the nature and remaining duration of the restriction, and circumstances that could cause a lapse in the restriction.
- The disclosure requirements would be required for all entities, including public and private entities.

# FASB Project Update - Presentation

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- These **presentation** requirements would be applicable to all entities, including public and private entities.
- Classify crypto assets received during the ordinary course of business that are converted nearly immediately into cash as operating cash flows.
- Not-for-profit entities should present their financial statements in accordance with Topic 958, Not-for-Profit Entities, subject to minor amendments that would clarify the inclusion of crypto assets.



# FASB Project Update - Measurement

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- The Board discussed how entities that hold crypto assets within the scope of this project should measure those assets.
- Requirement for an entity to:
  - a. Measure crypto assets at fair value, using the guidance in Topic 820, Fair Value Measurement.
  - b. Recognize certain costs incurred to acquire crypto assets, such as commissions, as an expense.

# Adoption and Effective Date

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- Feb 2023 - Early adoption should be permitted
- Cumulative-effect adjustment to net assets in the statement of financial position would be recognized as of the beginning of the first annual period in which the guidance is adopted.
- All entities subject to the **same effective date** and transition requirements
- Establishment of the effective date in the issuance of a final Accounting Standards Update.



# Final ASU Timeline

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- Board decided to expose the proposed update for public comment for 75 days
- Tentative decisions until final ASU issued.
- Proposed ASU expected end of March 2023
- Exposure draft:
  - Published by the FASB to invite comments on a proposed new accounting standard.
  - Stakeholders can comment so that their views are taken into consideration before the final standard is issued.

# AICPA and CIMA



- AICPA and CIMA set up joint working group on the Accounting and Auditing of Digital Assets.
- Guidance first issued in 2020 and continuously updated since.
- Nonauthoritative guidance for nongovernmental entities on how to account for under U.S. GAAP and audit under GAAS.
- Fast-evolving area, therefore the associated guidance will change over time.

# Auditing Implications

- Client acceptance and continuance – new requirements and challenges for clients that accept crypto donations.
- New compliance and independence risks – audit team members holding same crypto assets or similar assets to those being audited.
- Competence and resources of audit firm to undertake a new engagement involving auditing cryptocurrency holdings



# Auditing Implications

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- Adhering to the applicable professional standards.
- Auditor skills to gain a sufficient understanding of the entity and its environment, and perform an appropriate risk assessment as the basis for the audit.
- Evolving guidance and implications for auditors.

# Management and Governance

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- Management needs to be aware of its responsibilities for internal controls surrounding the acceptance of cryptocurrencies, whether as investments or liquidated immediately to cash.
- Need to formally update financial and accounting policies accordingly.
- Conduct appropriate internal training for finance and accounting team.
- Enhanced evaluation of third-party service providers and their internal controls.
- Obtaining and reviewing SOC reports of third-party service providers.
- Appropriate oversight by governance.



# Tax Treatment

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Katelyn Miller  
Senior Manager

# Limited Guidance

## *Notice 2014-21*

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Official IRS guidance was provided in [Notice 2014-21](#), *IRS Virtual Currency Guidance*, which described the application of certain federal income tax principles to transactions in convertible virtual currencies.

- Concludes that virtual currency is treated as property for federal income tax purposes.
- The same general tax principals that apply to property transactions apply to transactions using virtual currencies. Among other considerations, this means that:
  - Taxpayers are required to determine the FMV of the virtual currency in U.S. dollars as of the date of payment or receipt. The notice provides that a virtual currency listed on certain exchanges may be converted into U.S. dollars in a “reasonable manner that is consistently applied”

# Limited Guidance

## *IRS FAQ and Rev. Rul. 2019-24*

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Subsequently, on Oct. 9, 2019, the IRS issued [Rev. Rul. 2019-24](#) which considered cryptocurrency events. Along with the release of [Rev. Rul. 2019-24](#), the IRS provided answers to about 45 frequently asked questions (“IRS FAQs (Oct. 9, 2019)”) which it posted on its website to expand upon examples provided in Notice 2014-21.

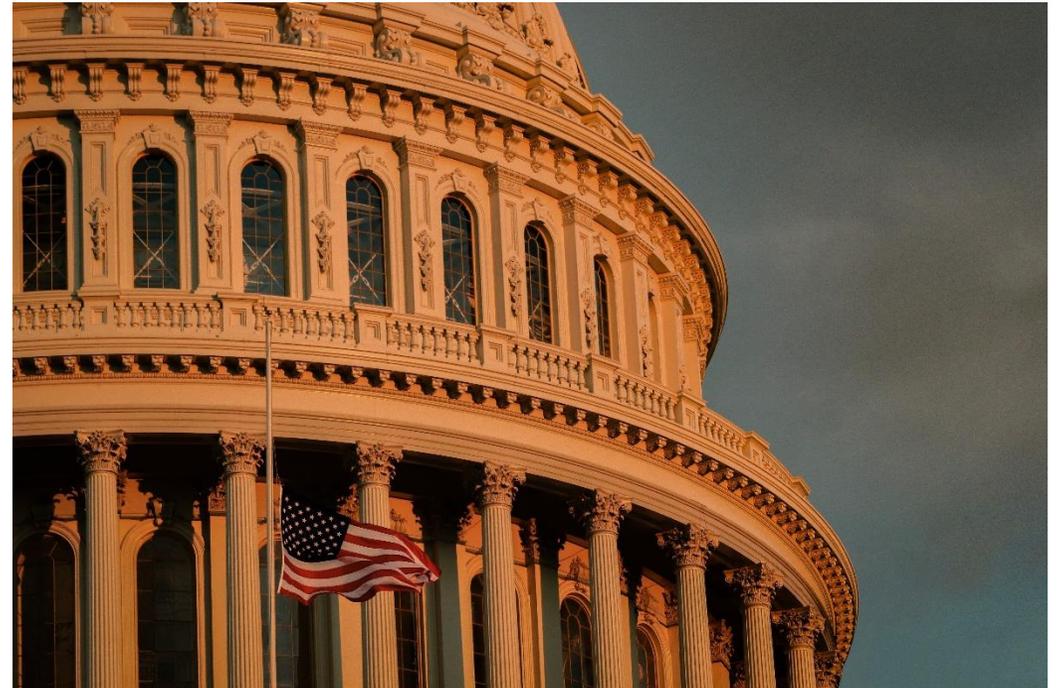
- FAQs are intended to address virtual currency transactions for those taxpayers holding virtual currency as a capital asset.
  - Fundamental capital gain and loss questions
  - Property exchanges involving virtual currency
  - Compensation and services-related issues
  - Gifts and charitable donations of virtual currency
  - Reporting and recordkeeping

# Limited Guidance

## *IRS Chief Counsel Memorandum*

On January 13, 2023, the Internal Revenue Service released a memorandum (CCA 202302012) concluding that:

- a qualified appraisal is required when a taxpayer claims a charitable contribution deduction exceeding \$5,000 for donated cryptocurrency.
  - clarified that cryptocurrency doesn't fit into any other statutory exceptions to the appraisal requirement.
- Valuations reported by cryptocurrency exchanges do not qualify as “qualified appraisals.”



# Accepting Donations of Cryptocurrency



- Internal Revenue Code Section 170 generally allows deductions for charitable contributions in the taxable year that the contributions are made.
- Deductions may be denied if the taxpayer does not meet certain substantiation requirements
- Additional requirements for contributions of “property”
  - Form 8282
  - Form 8283

# Donor Acknowledgement Responsibilities

## *Donations of Bitcoin and similar Cryptocurrencies*

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- For a donor to properly claim a tax deduction of \$250 or more for a donation of virtual currency, the charitable organization must provide the donor with a contemporaneous written acknowledgment.
- For a donor to properly claim a tax deduction of more than \$500 for a donation of virtual currency, the donor must complete Form 8283, Noncash Charitable Contributions, Section A.
- For a donor to properly claim a tax deduction of more than \$5,000 for a donation of virtual currency, the donor must obtain a qualified appraisal, and present the form to the organization for signature.
  - Form 8283 requires a qualified appraisal for donated *property* over \$5,000 (*not* required for donations of cash, inventory or property held primarily for sale to customers in the ordinary course of a trade or business, or publicly traded securities)
  - The organization's signature represents acknowledgement of receipt of the virtual currency on the date specified and that the organization understands the information reporting requirements imposed on dispositions of the donated property; it does not represent the organization's agreement with the appraised value of the property.

# Qualified Appraisal Requirement

## *Substantiation for donations of property > \$5,000*

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An appraisal can only be qualified if it is conducted by a qualified appraiser in accordance with generally accepted appraisal standards. To be qualified, an appraiser must:

1. be an individual,
2. have earned an appraisal designation from a recognized professional appraiser organization or meet minimum education and experience requirements set by the Treasury or the IRS, and
3. regularly perform appraisals for which he or she receives compensation.

Exceptions to the qualified appraisal requirement:

- A taxpayer is not required to obtain a qualified appraisal for cash donations or donations of publicly traded securities

# Use of a Fundraising Platform

## *To accept donations of cryptocurrency*

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- Is the platform registered as a professional fundraiser? (may not be required)
- Do they accept anonymous donations?
  - Anonymous to the platform vs. anonymous to the charity?
  - If anonymous to the platform, does the platform ensure that anonymous donations are not connected with illicit activity?
- Do they issue donation receipts?
- Do they fill out Form 8282?
- Will they share a donor list with the charity?

# Sale of Cryptocurrencies

## *Tax Reporting*

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- The sale of property is a realization event.  $\text{Gain/loss realized} = \text{FMV of the property} - \text{basis in the property}$
- Sales resulting in gains are generally not subject to unrelated business income tax
  - unless the investment is structured with debt financing
- If the exempt organization sells, exchanges, or otherwise disposes of any donated virtual currency within 3 years of the date of original receipt, the organization must file Form 8282, Donee Information Return, with the IRS, and provide a copy to the original donor of the property. This would include situations where the organization sells or exchanges the virtual currency for real currency.
- Impact on 1120-POL:  $\text{basis in donated appreciated property} = \text{the donor's adjusted basis}$ . Sale of this property could result in a large gain for purposes of calculating taxable investment income on the 1120-POL.

# Contributions to Private Foundations

## *of Bitcoin and Similar Cryptocurrencies*

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Impact on investment income excise tax – basis in donated appreciated property = the donor's adjusted basis. Sale of this property could result in a large gain for purposes of calculating taxable investment income on the 990-PF.

Impact on Minimum Distribution Requirement:

- The regulations provide methodologies for valuing cash (monthly), publicly traded securities (monthly), and other assets (generally annually). Where does crypto fit in?
- Annual valuation may have extreme impacts on MDR – if value skyrockets, could cause PF to sell crypto (potentially at a loss) to satisfy distribution if no other liquid assets are available.
- Monthly preferred. Reasonable position because they are regularly traded on exchanges where market quotations are readily available in U.S. dollars

# Form 990 Reporting

## *Contributions of Bitcoin and Similar Cryptocurrencies*

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Part VIII, Statement of Revenue, Line 1g noncash contributions

Part VIII, Statement of Revenue, Line 7, sales of assets other than inventory

Part X, Balance Sheet, Line 14, Intangible Assets

Schedule B, Schedule of Contributors

Schedule M, Noncash Contributions

- Schedule M also reports the number of Forms 8283 received by the organization during the tax year for which the organization completed Part V, Donee Acknowledgement.



# FinCEN Reporting

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Regulations issued by FinCEN define the term “currency” to mean:

*“The coin and paper money of the United States or of any other country that is designated as legal tender and that circulates and is customarily used and accepted as a medium of exchange in the country of issuance.”*

According to FinCEN, virtual currency does not meet the definition of *currency* in the FinCEN regulations because it does not have all the attributes of *currency*.



[Explore the IRS FAQ on virtual currency transactions](#)

## Polling Question #3

What tax compliance issues are you concerned about in regard to accepting cryptocurrency?

- A. *Handling 8283/8282 forms*
- B. *1120 POL excise tax*
- C. *990 PF investment income tax*
- D. *All of the above*

# Key Takeaways

- Pros and cons of accepting cryptocurrencies, whether or not liquidated to cash.
- Donors motivated by desire to do good in addition to tax benefits to the donor.
- Fast-evolving area.
- Be prepared - don't wait until you are approached by a donor who wants to make a significant crypto donation and lose out because you are not ready!
- Review applicable accounting guidance.
- Review and update your gift acceptance policies.
- Be aware of tax implications.



# Questions?

Contact Us



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