

Non-Profits and Cryptocurrency

With the rise of Bitcoin, potential donors have become willing to donate to charitable organizations with Bitcoin. Such donations raise tax, contribution, technology, and other issues, which are examined here.

First, bitcoin is inherently risky. Unlike currencies like the United States Dollar or the Euro, Bitcoin is not regulated as a currency. Its value relies almost entirely on supply and demand, making its value capricious from day to day. In this way, engaging in transactions using Bitcoin is akin to trading stock. The lack of regulation and electronic nature also mean that Bitcoins are not recoverable nor are they insured against loss. Further, Bitcoin allows for complete anonymity, making transactions difficult to track.

Second, donation via Bitcoin could be less beneficial than intended. If a donor is unable to donate the Bitcoin directly, the donor can make a charitable donation by converting their Bitcoin into dollars, then donating those dollars to the charity. However, this conversion can subject the donor to capital-gains taxes, decreasing the intended amount of the charitable donation by up to 25 percent. Thus, the donor loses some of the value of the Bitcoin to taxes, and the organization receives less benefit.

Third, according to IRS Notice 2014-21, Bitcoin is treated as property for donation and tax purposes, not as a currency, making it subject to rules concerning gifts of property. Property donation rules require charitable organizations to comply with particular reporting requirements, donors to fill out Form 8283 if their gift is more than \$500, and potential donors to have their intended donation valued. *See* 26 U.S.C. § 170 (2018). However, the issues of anonymity, lack of regulation, and capricious value make complying with these requirements difficult.

In the face of these challenges and relative silence on the part of the IRS, professionals have still made several suggestions for dealing with and in Bitcoin.

Regarding valuation, Duke University School of Law professor Ashley Pittman explains three different methods. Pittman suggests, however, that the stock valuation model will most likely become the primary method because Bitcoin is highly comparable to stocks. According to Pittman, the stock valuation model would help create clear record records, but it may be open to abuse and the system would face difficulties in dealing with the differences between stocks and Bitcoin. Thus, Pittman also suggests using the model that is used for vehicle valuation, where tax deduction is based more on the organization's actual proceeds from sale than on fair market value. The vehicle valuation method would be easier to use- being free of many recordkeeping requirements and fair market value determinations- but may bear some risk for taxpayers if the Bitcoin value falls before the organization converts the Bitcoin.

Finally, charitable organizations can, and more are, beginning to accept Bitcoin and other cryptocurrency donations. One major example is [The Water Project](#), which explicitly states its acceptance of cryptocurrencies as donations. Universities, of course, are also beginning to experiment with accepting Bitcoin donations. The University of Puget Sound recently received an alumni donation. The school decided to sell the coins immediately to avoid the issue of

capricious value. Organizations who want to accept Bitcoin can set up their own account or utilize services such as Bitpay to simplify the acceptance process.

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Further reading:

2014 IRB LEXIS 238, Notice 2014-21, 2014-1 C.B. 938, 2014-16 I.R.B. 938 (I.R.S. March 25, 2014).

26 U.S.C. § 170 (2018).

The Evolution of Giving: Considerations for Regulation of Cryptocurrency Donation Deductions. Ashley Pittman. 14 Duke L. & Tech. Rev. 48 (2015).

<https://www.irs.gov/charities-non-profits/contributors/tax-information-on-donated-property>

Colleges are Baffled by Bitcoin Donations. Janet Lorin. Bloomberg Businessweek, 2018.

<https://www.bloomberg.com/news/articles/2018-10-16/colleges-are-baffled-by-bitcoin-donations>

<https://www.investopedia.com/university/definitive-bitcoin-tax-guide-dont-let-irs-snow-you/definitive-bitcoin-tax-guide-chapter-2-bitcoin-commerce-taxable-events-b-donations.asp>

Should We Accept Bitcoin Donations? A Nonprofit's Guide to Bitcoin. Smith and Howard Certified Public Accountants and Advisers, 2015. <https://www.smith-howard.com/should-we-accept-bitcoin-donations-a-nonprofits-guide-to-bitcoin/>

<https://thewaterproject.org/donate-bitcoin>