

# Second Thoughts About Cryptocurrency Donations?

01.29.19 | Linda J. Rosenthal, JD



In early April 2018, we posted [Bitcoin and More: The New World of Donations](#). Cryptocurrency was introduced just a decade ago, but by 2017, it was taking the world by storm.

Cryptocurrency has applications and implications across the economic spectrum. The nonprofit world has begun to sit up and take notice: This new technology offers an added type of payment option for charitable donations; it has some notable benefits including quicker processing, lower fees, and easier access to international donors. Tech-savvy individuals – including a swath of newly minted Silicon Valley billionaires – are big proponents who want to make their philanthropic contributions in this manner, not least because there are highly attractive tax advantages. Of course, the great [Bitcoin Crash of 2018](#) showed that there are serious downsides to this untested market. That [volatility continues](#), there are [lawsuits](#), and the government looks [ready to step in](#) for some much-needed regulation.

By the fall of 2018, experts and observers were ready to take a second look at the cryptocurrency craze and evaluate it anew from the perspective of donee organizations, donors, and philanthropy generally.

“There are a [lot of Bitcoins out there](#), and lots of people and businesses are starting to use them for real-life transactions.” For the nonprofit world, though, there are more questions than answers.

### ***What is Cryptocurrency?***

In [Bitcoin and More: The New World of Donations](#), we included background and definitions of key terms. Cryptocurrency is known also as “digital currency”; Bitcoin is just one type of cryptocurrency, albeit the one with the most name recognition so far. It’s a “[digital token – with no physical backing](#) – that can be sent electronically from *one user to another, anywhere in the world.*” A key feature is *that it is decentralized via “[distributed ledger technology](#).”*

There is an easy-to-understand description in [Should Your Non-Profit Accept Bitcoin for Donations?](#) “Bitcoin,” the author writes, is a new digital “[currency](#)” or “[store of value](#)” that exists on computers and on the web.” It’s a “little like gold. It is worth something, can be used to buy things, or can be

sold for dollars, euros, pesos, or other currency.” Helpfully, he adds a link to a “slightly longer, but still fairly non-technical explanation of what Bitcoin is”: a video, prepared by [WeUseCoins](#), with cute animated cows. And, “if you want a highly technical answer for the question, check out both the [Wikipedia entry for Bitcoin](#) as well as the official [Bitcoin site](#).”

### ***Cryptocurrency: Pros and Cons***

#### ***Volatility; Liquidity***

From the perspective of the donee-charity, there are attractive advantages. If there’s a way to add another payment option, particularly one desired by newly minted uber-rich, tech-savvy philanthropists, which is also easy to set up and simpler and cheaper to administer and gives better access to international donors, cryptocurrency looks like a no-brainer. See [What You Need to Know about Cryptocurrency In Your Nonprofit](#) for a discussion of these advantages [“Because there are fewer people and processes involved, cryptocurrency [transactions are fast and efficient](#).]”

“A good number of non-profits have [started accepting Bitcoin donations](#) .... In [Brave New World: How Cryptocurrencies and the Blockchain Are Changing Cryptocurrencies](#), Julia Travers writes for Inside Philanthropy about many new and exciting examples of nonprofits adopting this innovative technology. Many of them take advantage of Bitcoin payment processing firms like Coinbase and BitPay that make it easier to accept Bitcoin and immediately convert them into U.S. dollars, euros, or other currency. (For U.S. nonprofits, cryptocurrency transactions must be [reported in U.S. dollars](#).) There are also [direct trading platforms](#), peer-to-peer marketplaces, and offline selling.

This immediate conversion into standard currency helps avoid one of the biggest arguments against cryptocurrency: lack of liquidity and the likelihood of taking huge losses when there is market volatility. So far, “the volatility of cryptocurrencies is [incredibly high](#).” “[S]ome types of cryptocurrency seem to disappear while others like Bitcoin have been very [remained amid volatility of value](#).” Since cryptocurrency value is based on supply and demand, there can be, and are, serious fluctuations.

“Generally, [it is lawful for a nonprofit to accept a donation in the form of a cryptocurrency](#). However, this [does not necessarily mean that it would be prudent for all nonprofits to do so](#).”

Among the experts raising alarm bells about cryptocurrency – and particularly, the large concentration in some of the largest nonprofits and donor-advised funds, who hold onto the donations instead of liquidating them – are Professors Philip Hackney of the University of Pittsburgh and Brian Mittendorf of Ohio State University. In [Charities take digital money now – and the risks that go with it](#), these two academics, who write prolifically on nonprofit organization issues, write that “an [increasing share of charitable giving](#) is coming from a small group of extremely wealthy donors as the percentage of Americans who donate to nonprofits declines.”

“Mega-donors,” they explain, “contribute assets like stocks and bonds”, instead of cash; these contributions yield highly attractive tax benefits. In 2014, the IRS ruled that cryptocurrencies are to be treated like these non-cash assets. So the uber-rich are now stuffing [huge amounts of Bitcoin](#) into their favorite donor-advised funds at the Silicon Valley Community Foundation or in the huge commercial DAF firms like Fidelity Charitable. These donations are being held, instead of liquidated immediately, amid [seriously troubling volatility](#) in the market.

#### ***Uncertainty; Ambiguity***

Among the additional concerns about cryptocurrencies are uncertainties, even as to the much-touted tax advantages.

There are helpful discussions of the tax treatment and implications to donors and to the donee-organizations at *What You Need to Know about Cryptocurrency In Your Nonprofit* as well as at *Cryptocurrencies and Nonprofits* by Gene Takagi, Esq.

Since virtual currency is treated as an asset rather than cash, there is no value assigned to the gift, but the donor is required to document the value including in the case of donations of more than \$5,000 adding a qualified appraisal. There is “no real guidance” on some of these details. And, of course, that creates uncertainty as well for the donee-organization that has reporting and documentation duties.

Because cryptocurrency is so new, there is little regulation, and what exists varied significantly from nation to nation. “Relying on unregulated infrastructure and exchanges is risky.”

There are additional concerns because “cryptocurrencies are anonymous and uninsured. And they’re technology dependent. This means that should anything go wrong, there is no recourse or direct way to get the money back.” Governments could get into cryptocurrencies, and do a better job of managing them.

In addition, “[b]lockchain-based currencies can both cloak personal finance and be adopted for criminal use like investment scams and money laundering.”

**Conclusion**

“The urge to donate digital money, especially once the meteoric rise in the value of bitcoin and similar assets created the opportunity for investors to reap huge potential charitable tax breaks, was only natural.”

But it may be that the famous quote from Betty Davis’s character in *All About Eve* applies here:

“Fasten your seatbelts, it’s going to be a bumpy ride.”