

MOMENTUM 2022 Annual Conference and Trade Show - August 30 - September 1, 2022 **LeadingAge**
Ohio

Cryptocurrency: Next Big Thing? Or Next Big Bust?

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Agenda: Gift of the future? An extremely risky asset?

- Cryptocurrency/NFT Basics
- Risks of holding cryptocurrency
- Trading cryptocurrency
- Cryptocurrency regulation
- Charitable gifts of cryptocurrency
 - ✓ Why you should
 - ✓ Why you shouldn't

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Crypto Basics

- Digital currency created using encryption algorithms
- Based on blockchain technology
 - ✓ Database spread over multiple computers
 - ✓ Digital ledger that verifies accounts, balances, and transactions
- Functions as a currency and a virtual accounting system
- Digital Tokens v. Coins
 - ✓ Coins are a form of money
 - ✓ Tokens represent something that can be assigned a price

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Crypto Basics

- Many investors use more than one platform
- Need a cryptocurrency wallet
 - ✓ Can be cloud-based service or stored on a computer
 - ✓ Wallets store encryption keys
 - ✓ Keys confirm identity and link to cryptocurrency
- 20,268 cryptocurrencies (7/20/22)
- Market capitalization of all crypto, \$1.025 trillion (7/20/22)
 - ✓ Market capitalization was \$2.6 trillion as of 4/8/22

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Crypto Basics

- Volatile market
- Uninsured, virtually unregulated, and relatively hard to convert into tangible currency
- Subject to hacking and scams
- Without wallet or backup entire cryptocurrency investment lost
 - ✓ Lost Passwords Lock Millionaires Out of Their Bitcoin Fortunes
NYT, Published Jan. 12, 2021
- Why crypto?
 - ✓ "Currency" that doesn't rely on trust in a bank or the government

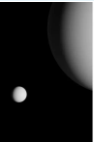
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What is an NFT?

- Non-Fungible Token
 - ✓ A one-of-a-kind trading card
 - ✓ Can be nearly anything
 - ✓ GIFs, Collectibles, Music, Videos
 - ✓ Can represent ownership in titles, mortgages, etc.
- Anyone can copy the digital file, including the art that's included with an NFT
- The NFT represents ownership of the work
 - ✓ Anyone can buy a Monet print, only one person can own the original



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What does an NFT have to do with Crypto?

- NFTs created using same technology as crypto: blockchain
- NFTs part of Ethereum blockchain, a cryptocurrency
 - ✓ Keeps track of who's holding and trading NFTs
- Unregulated: mania surrounding them has led to volatility
- Illiquid: NFTs not readily exchangeable for cash
- Volumes are down, but prices are up

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What is crypto mining?

- A way of creating new coins
 - ✓ A ledger= Record of money in and money out
 - ✓ Distributed ledger=Every person in the system has a copy of the ledger
- Only verified miners can update the digital ledger
- Miners rewarded with new coins if they solve complex mathematical equations
- Gold miners unearth minerals
- Crypto miners trigger release of new coins into circulation
 - ✓ With Bitcoin, miners paid transaction fees and 6.25 BTC per block for their efforts




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Is Crypto in Freefall?

- Broad market pullback beginning in May
 - ✓ \$900 billion lost in second week of May
- Bitcoin price:
 - ✓ \$65,466.84 November 14, 2021
 - ✓ \$38,469.09 May 1, 2022
 - ✓ \$24,319.33 August 14, 2022
- Bitcoin was \$11,523.58 August 20, 2019
- Crypto "bank" Celsius bankrupt



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Owning/Trading Crypto

- Derivatives Account (Contract for Differences-CFD)
 - ✓ Investment to speculate on value of crypto without owning coins
 - ✓ Can buy long or short, only need a small deposit (margin)
- Exchange Account
 - ✓ Coinbase, eToro and Gemini, popular crypto exchanges
 - ✓ Purchase coins on an exchange
 - ✓ Deposit coins in a wallet until ready to sell


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Who are crypto and NFT donors?

- Young, as young as teens
- Altruistic
- Highly tax-incentivized
- More generous on average than cash donors
- Tech savvy
- Impatient



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Why Should Charity Accept Crypto?

- Crypto is going to be around for the long term
- Crypto is an appreciated asset appropriate for avoiding capital gain
- Just another type of property, once you understand it
 - ✓ Have system to convert to cash quickly
- Makes your organization an attractive recipient to sophisticated donors

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What could go wrong?

- Volatility
 - ✓ Bitcoin down 63% since November 2021
 - ✓ Liquidate immediately
- Some crypto illiquid
- Donor may insist that you hold crypto
- Subject to hacking
- Bankruptcies of crypto firms
- SEC regulatory actions



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Is Crypto Consistent with your Mission/Values?

- Environmental impact
 - ✓ One bitcoin transaction uses 1,449 kWh to complete
 - ✓ Equivalent of 50 days of power for average US household
 - ✓ Bitcoin mining uses around as much energy annually as Argentina
- Societal Risk
 - ✓ Early investors make money at expense of later investors
 - ✓ Is crypto just a pyramid scheme?
- Reputational Risk
 - ✓ Cryptocurrency-based crime received \$14 billion in 2021
 - ✓ Scamming
 - ✓ Drugs
 - ✓ Human trafficking
 - ✓ Terrorism

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Crypto Regulation

- Concerns about money laundering money and illegal goods and services
- IRS Notice 2014-21
 - ✓ Notice not a law, not a regulation
 - ✓ Guidance on applying tax principles
- Treated as property for federal tax purposes
 - ✓ Not treated as currency
 - ✓ Capital gain or loss on sale or use to purchase goods or services
- Subject to capital gain and loss rules

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Acknowledging a Gift of Cryptocurrency

- Charitable contribution of \$250 or more must contain the following information:
 - ✓ name of the organization;
 - ✓ description (but not value) of cryptocurrency donated;
- statement that no goods or services were provided by the organization, if that is the case; or
- description and good faith estimate of the value of goods or services, if any, that organization provided in return for the contribution

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Tax consequences of gifts of cryptocurrency

- Donor avoids capital gain and entitled to a FMV deduction if held for at least one year and donor itemizes
- If valued over \$5,000
 - ✓ Need qualified, independent appraisal
 - ✓ Form 8283
- Who is qualified to appraise crypto?
 - ✓ Bryan Clontz, <https://charitableolutionsllc.com/>
- Charity acknowledges receipt on Form 8283

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How to accept gifts of cryptocurrency

1. Charity sets up its own digital wallet
2. Use a third party
3. Use a payment processor



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How to accept gifts of cryptocurrency

- Charity can set up its own cryptocurrency wallet
 - Buy or download wallet
 - Install the software
 - Set up account
 - Deposit cryptocurrency
- What security features does your charity require?
- Who will have access to the wallet?
- How are you going to ensure immediate sales of donated crypto?

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How to accept gifts of cryptocurrency

- Donor works with a third party
 - ✓ Donor advised funds
 - ✓ Dechomai Foundation
 - ✓ National Philanthropic Trust
- Donor makes grant recommendation to DAF
- Delays receipt of the gift
- Introduces third party to the relationship

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How to accept gifts of cryptocurrency

- Charity engages a payment processor
 - ✓ <https://www.cryptoforcharity.io/>
 - ✓ <https://bitpay.com/>
 - ✓ <https://www.engiven.com/>
 - ✓ <https://thegivingblock.com/>
- Fees as high as 4%
- Standing instructions to sell immediately

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Conclusion

- Crypto is risky, volatile, controversial
- Crypto is here to stay
- Conduct due diligence now
- Update policies
- Create infrastructure
- Even if the answer is no, be ready with an answer

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