SCIARABBA WALKER &CO LLP
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

The Nonprofit Edge

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The Changing Preferences of Younger Donors

By Samantha Sands

While the dictionary definition of philanthropy is "the desire to promote the welfare of others, expressed especially by the generous donation of money to good causes," millennials have modernized the word to encompass a broader meaning of helping their community rather than simply donating money for a specific reason. Many millennials seek to live out their values by supporting and being a part of the causes to which not-for-profit organizations are dedicated.

Evolving donation methods- Millennials have adapted to using electronic forms of payments over cash. Research by Capital One states that a third of millennials claim they "rarely or never" carry cash anymore. The easiest ways for the younger generation to donate to organizations are through services like Zelle, PayPal, Venmo, GoFundMe, or using their debit or credit cards.

Giving beyond monetary donations- The younger generation strongly desires to see their values represented by the brands or organizations they support. In addition to monetary contributions, millennials may donate their time by volunteering or even attempt to extend the reach of their favorite organization's marketing efforts by reposting the content on their own social media channels. It is no wonder that brands like TOMS, which donates a pair of shoes for every pair sold to children in need, have seen such success with the younger demographics. On the other hand, if an organization takes action or makes a statement that is counter to their values, some millennials will sever their relationship altogether.

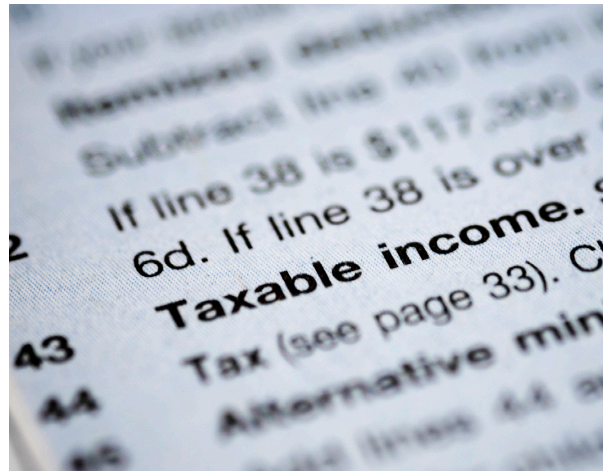
Considering all this, not-for-profits must be open to the many ways younger supporters wish to engage their mission. From understanding and accepting new and upcoming digital payment methods, including cryptocurrency, which we continue to discuss in this News Brief, to creating shareable digital marketing content, helping your younger supporters engage with your organization can be the start of a lifelong relationship with wide-reaching impact.

Unrelated Business Taxable Income

By Svetlana Svetlichnaya, CPA

Tax-exempt organizations have a federal income tax exemption and are not required to pay tax on exempt function income. However, in the 1950s, Unrelated Business Taxable Income (UBTI) was enacted to eliminate unfair competition between tax-exempt organizations and for-profit entities. For most organizations, an activity is an unrelated business (and subject to unrelated business income tax) if it meets three requirements:

1. It is a trade or business,
2. It is regularly carried on, and
3. It is not substantially related to furthering the exempt purpose of the organization.



The term trade or business generally includes any activity carried on for the production of income from selling goods or performing services. Activities of producing or distributing goods or performing services from which gross income is derived do not lose their identity as trades or businesses simply because they are carried on within a larger framework of other activities that may, or may not, be related to the organization's exempt purposes.

Business activities of an exempt entity ordinarily are considered "regularly carried on" if they show a frequency and continuity and are pursued in a manner similar to comparable commercial activities of nonexempt organizations.

Determining whether a business activity is substantially related requires examining the relationship between the activities that generate income and the accomplishment of the organization's exempt purpose. Trade or business is related to exempt purposes, in the statutory sense, only when the conduct of the business activities has a causal relationship to achieving exempt purposes other than through the production of income. The causal relationship must be substantial. The activities that generate the income must contribute importantly to accomplishing the organization's exempt purposes to be substantially related.

There are several modifications, exclusions, and exceptions to the general definition of unrelated business income. For example, dividends, interest, certain other investment income, royalties, certain rental income, certain income from research activities, and gains or losses from the disposition of property are excluded when computing unrelated business income for 501(c)3 organizations. In addition, the following activities are specifically excluded from the definition of unrelated trade or business:

- ***Volunteer Labor***: Any trade or business is excluded in which substantially all the work is performed for the organization without compensation. Some fundraising activities, such as volunteer-operated bake sales, may meet this exception.
- ***Convenience of Members***: Any trade or business is excluded that is carried on by an organization described in section 501(c)(3) or by a governmental college or university primarily for the convenience of its members, students, patients, officers, or employees. A typical example of this is a school cafeteria.
- ***Selling Donated Merchandise***: Any trade or business is excluded that consists of selling merchandise, substantially all of which the organization received as gifts or contributions. Many thrift shop operations of exempt organizations would meet this exception.
- ***Bingo***: Certain bingo games are not unrelated trade or business.

Passive income derived from an asset subject to acquisition indebtedness will be generally treated as UBTI. Acquisition indebtedness is debt incurred in connection with the purchase of the property, whether the indebtedness is incurred before, after, or at the time of the acquisition. The general rule states that any liability that is reasonably foreseeable at the time of asset acquisition will be captured by the acquisition indebtedness rules.

Other organizations organized under separate code sections have different requirements for UBTI. For example, social clubs that are organized under code section 501(c)(7) are taxed on passive income like dividends, nonmember rents, and interest. There are special rules relating to set-asides for charitable and similar purposes, virtually negate the tax imposed.

When determining whether an activity is unrelated business income, each situation must be examined independently within the exempt function of the organization. If you have any questions, please reach out to your personal Sciarabba Walker contact or email us at info@swcllp.com.

The Challenges of Cryptocurrency

By David Jacobson

Donations of cryptocurrency are on the rise. If your non-profit has not encountered this yet, it most likely will at some point in time. Cryptocurrency can be obtained in various ways, but a common method is transferring from one cryptocurrency "wallet" to another. If a non-profit would like to receive cryptocurrency donations and potentially hold on to them, they should research whether obtaining a wallet would be best for their organization. Dealing with cryptocurrency can be complicated, and often non-profits choose to partner with another organization who can help the non-profit with the receipt, valuation, and cash conversion of these donations. Depending on the size of the donation, the non-profit may be comfortable handling this receipt and conversion themselves.

How does the IRS treat cryptocurrency? The initial guidance provided by the IRS came back in 2014 with Notice 2014-21, which states that virtual currency is treated as property. This would mean any donations of cryptocurrency would be considered noncash donations.

For the donors of the cryptocurrency, noncash donations need to be reported on form 8283 if the value of the donated property is over $500. Depending on the election the donor takes on their return, the charitable contribution would generally be reported at fair market value (FMV) of their cryptocurrency and the deduction the donor would be allowed to take would be subject to a limit of 30% of their adjusted gross income (AGI) for that year.

For the non-profits, receiving these donations will present both challenges and decisions. If a cryptocurrency is donated and is not commonly traded on cryptocurrency platforms, the FMV of the cryptocurrency may be difficult to determine as the price might not be readily available. While this might become less likely as cryptocurrency becomes more popular, if you do find yourself in this situation, be sure to document your valuation process. For any donation more than $5,000 in value, an appraiser may likely be required (see the section discussing reporting requirements below). Finally, decisions need to be made on the strategy to be used with cryptocurrency donations. Will the cryptocurrency be held as an investment, or will it be converted to cash? If it is held as an investment, please pay attention to the reporting requirements. On May 11, 2022, FASB met and decided to prioritize research to determine reporting specifically for digital assets, which includes cryptocurrency. Currently, the primary guidance for digital assets has been provided by the AICPA by their Digital Assets Working Group, titled Accounting For and Auditing of Digital Assets. As FASB points out, this guidance is not official and, as such, FASB plans to determine the best reporting methods for these assets. Note that the current guidance suggests cryptocurrency to be reported as intangible assets, which means keeping the cryptocurrency on the books might require impairment losses if the cryptocurrency loses value.

If you decide to convert the cryptocurrency donation to cash, you might encounter challenges depending on the size of the donation. Some donations can be worth a lot and converting it to cash can be challenging. As mentioned before, there are currently organizations who specialize in converting cryptocurrency donations into cash for non-profits, and charities should consider researching these options if they believe this might be best for them. If the donations are of manageable size, or if systems and persons are already in place within the non-profit receiving the donation to easily manage these donations, they may find the administrative burdens of handling these donations minimal and thus manage it themselves with little issue.

Will cryptocurrency trigger any UBTI for my non-profit? - As mentioned previously, the IRS treats cryptocurrency as property. That means gains and losses from cryptocurrency would typically not be considered Unrelated Business Taxable Income (UBTI). Similar to other gains and losses on property, if cryptocurrency is acquired in the future in a debt-financed purchase, this may make the gains subject to Unrelated Business Income Tax (UBIT).

Holding onto cryptocurrency should not trigger any UBTI either. If your non-profit decides to become active in the digital asset market and they begin mining or staking cryptocurrency, the IRS may consider this a trade or business operation that could be considered UBTI.

What are the reporting requirements for donations of cryptocurrency? A form 8283 would be required by the donor for any cryptocurrency donation whose value is greater than $500. While form 8283 is primarily the responsibility of the donor, your involvement is required on this form for donations valued in excess of $5,000. If this donation size is received, the following will need to happen:

1. The donation will need to get appraised by an appraiser.
2. The appraiser needs to sign the form 8283 under Part IV.
3. A representative from your organization needs to sign the form 8283 under Part V.

Due to exceptions provided by the IRS for common donation items, this form and reporting requirements may be completely new for a non-profit. While the values of cryptocurrency can be easily obtained, under the current instructions of the form, a donation of cryptocurrency or other digital assets will require and appraisal if it valued over $5,000. This appraisal would typically come as an additional cost to the donor since this form is for the benefit of the donor to allow them to take the charitable contribution deduction on their individual return. Your non-profit organization should be aware that these processes will likely take place, which could bring some challenges in coordinating signatures for the donor for both the appraiser and your organization. If the donor decides not to complete this form, then they will not be able to take the charitable deduction for any cryptocurrency donation that is valued more than $5,000.

Assuming the donor goes through this process and takes the charitable deduction on their personal income tax return, your non-profit might have an additional filing requirement if it decides to convert the cryptocurrency into cash. If your non-profit decides to convert the cryptocurrency to cash within three years of receipt of the original donation, a form 8282 will need to be completed within 125 days of the cryptocurrency's conversion. Note that this would apply for any cryptocurrency donations which were valued to be greater than $5,000 at the time of its original receipt by the non-profit. Even if you decide to keep some of the cryptocurrency and convert the rest, a form 8282 may still need to be completed. In these circumstances, talking to a tax professional will be most helpful.

This is a relatively new yet quickly growing field. If you feel like you're trying to play catch up, don't worry because you are not alone. Approach these donations with the same care and conscientiousness as you do with other donations. As always, Sciarabba Walker is here to help.
If you have any questions or are in need of any assistance with the management or taxation of cryptocurrency donations, please reach out to your personal Sciarabba Walker contact or email us at info@swcllp.com.

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FASB's New Statement of Activities Requirement

By Dylan Wright, CPA

The Financial Accounting Standards Board (FASB)'s Not-for-Profit Advisory Committee has made amendments to Accounting Standards Update (ASU) 2020-07 – Not-For-Profit Entities (Topic 958): Presentations and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets in an attempt to increase the transparency of contributed nonfinancial assets for financial statement readers.

The amendments to this update require nonprofits to present contributed nonfinancial assets as a separate line item on the statement of activities. Nonprofits will also need to provide a note disclosure that disaggregates the amount of contributed gifts-in-kind and other non-cash contributions by category.

Gifts-in-kind include fixed assets such as land, buildings and equipment, utilities, materials, and supplies such as food, clothing and pharmaceuticals, and intangible assets. As well as the use of fixed assets, contributed services and the unconditional promises of those assets.

The following information needs to be disclosed for each category of contributed gifts-in-kind and other non-cash contributions:

- Information about whether gifts-in-kind were monetized or used during the reporting period. If they were used, a description of how they were used is needed.
- The policy for monetizing rather than using the gifts-in-kind, if applicable.
- A description of any restrictions associated with the use of the gifts-in-kind.
- A description of the valuation technique that was used to arrive at the fair value of the gifts-in-kind.

The amendments are effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The amendments for the ASU must be applied retrospectively.

If you have any questions, reach out to your personal Sciarabba Walker contact or email us at info@swcllp.com.