

Crypto Philanthropy: Decrypting Crypto

May 24, 2022

Housekeeping:

- Cryptocurrency Terms to Know
- Presentation Recorded
- 1 CPE & CE credit for CPAs and CFPs
- Presentation is for educational purpose, not intended to provide legal, financial or tax advice.
- Questions – Use the chat box



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AGENDA

1. Cryptocurrency & Philanthropy (Jen-L Lyman)

2. Crypto 101 (Ryan Ozawa)

- What is it?
- How does it work?
- Federal & State Legislation

3. Cryptocurrency Taxation (Vera Wright)

4. Questions & Answers





Virtual Webinar

Tuesday, June 28, 11:30 a.m.

Gregory Dunn,
CEO, Hawaii Theater

Lt. Colonel Kyle Smith
Territorial Secretary for Community Relations & Development
The Salvation Army Western Territory

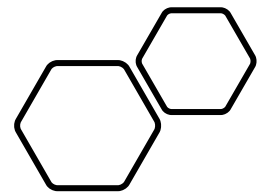
Panelist will share how they began accepting gifts of cryptocurrencies, their experience finding donors with crypto assets, what infrastructure is needed, and the pitfalls to avoid.

Cryptocurrency & Philanthropy

Jen-L Lyman

Director of Planned Giving & Advisor Relations

Hawai'i Community Foundation



History of Bitcoin & Cryptocurrency

- 2008: Domain bitcoin.org is registered; Satoshi Nakamoto publishes whitepaper on Bitcoin
- 2009: First Bitcoin transfer \$0 price
- 2017: \$1,000 (January), \$2,000 (Mid May), \$19,000 (December)



HAWAII COMMUNITY FOUNDATION





2021 Breakthrough Year for Cryptocurrency

- Bitcoin \$68,991 (November), \$49,243 (December)
- 2022: \$29,379 (May)
- A recent survey shows that **20% of U.S. adults** have invested, traded in, or used cryptocurrency.
- Crypto investing is mainstream
- Common way to pay for goods & services





Why is crypto getting so popular?

Innovation and volatility

Low fees

No government control

Profit





More people are donating crypto

- 2021, Fidelity Charitable received \$330M in crypto donations vs. \$28M in 2020 —a 12X increase from 2020
- Crypto owners are **more generous** than the average investor
 - 45% of crypto investors gave more than \$1,000 to charity in 2020 vs 33% of all investors





Why have donations soared?

- Increase in value = more wealth
- More value = more paid in taxes
- Avoid capital gains
- Do good with the gains



Decrypting Crypto: **Crypto 101**



Hawai'i Community Foundation
May 24, 2022

What we'll cover

What is cryptocurrency?

What is blockchain?

What are NFTs?

National, state, and Hawai'i law

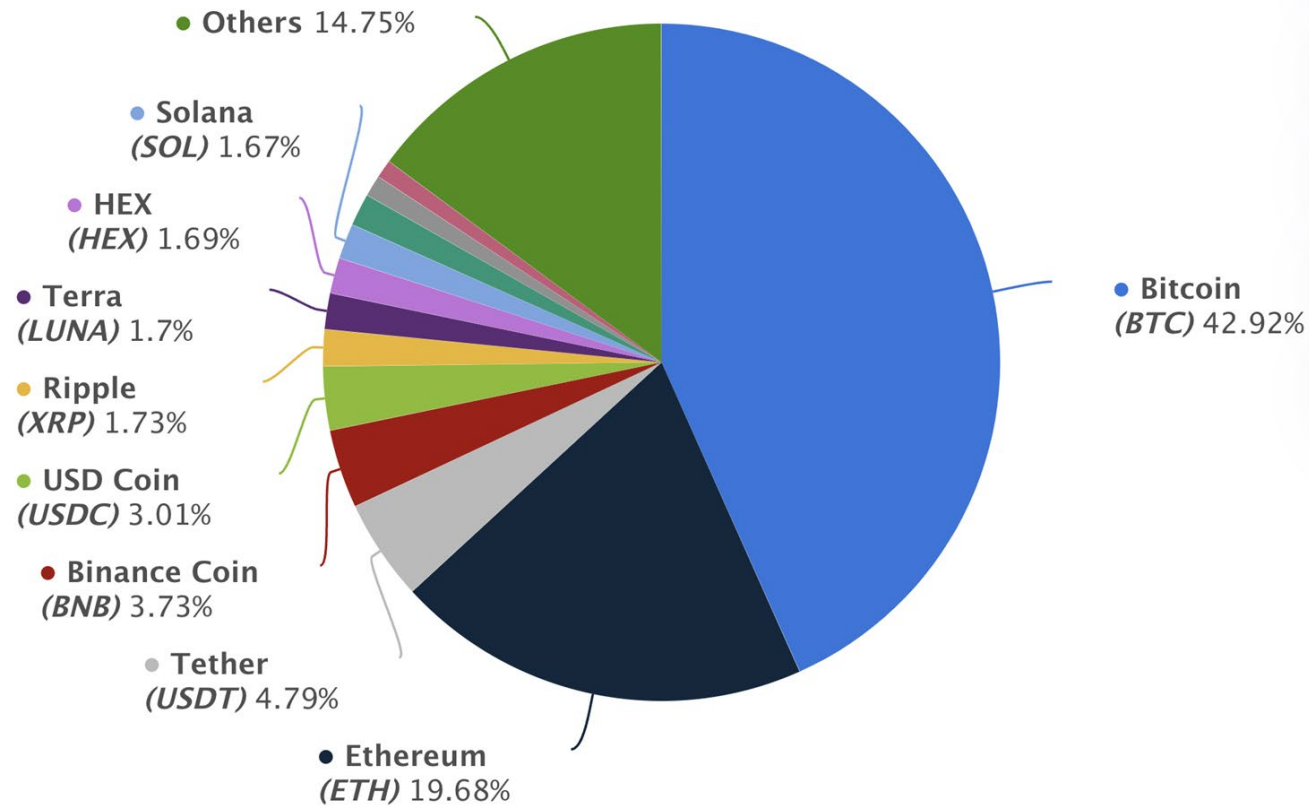










Cryptocurrency

Cryptocurrency is a type of virtual currency that utilizes cryptography to validate and secure transactions that are digitally recorded on a distributed ledger, such as a blockchain.

Virtual currency is a digital representation of value that functions as a medium of exchange, a unit of account, and/or a store of value. In some environments, it operates like “real” currency (i.e. U.S. coin and paper money designated as legal tender, circulates, and is customarily used and accepted as a medium of exchange), but it does not have legal tender status in the U.S.

Cryptocurrency



Coin	Price	Mkt Cap
 BTC	\$38,839.89	\$739,147,595,640
 ETH	\$2,850.65	\$342,561,994,763
 USDT	\$1.00	\$83,150,094,507
 BNB	\$393.03	\$65,975,456,561
 USDC	\$1.00	\$49,132,299,262
 XRP	\$0.618574	\$29,787,347,431
 SOL	\$87.26	\$29,142,695,617
 LUNA	\$84.23	\$28,848,458,591



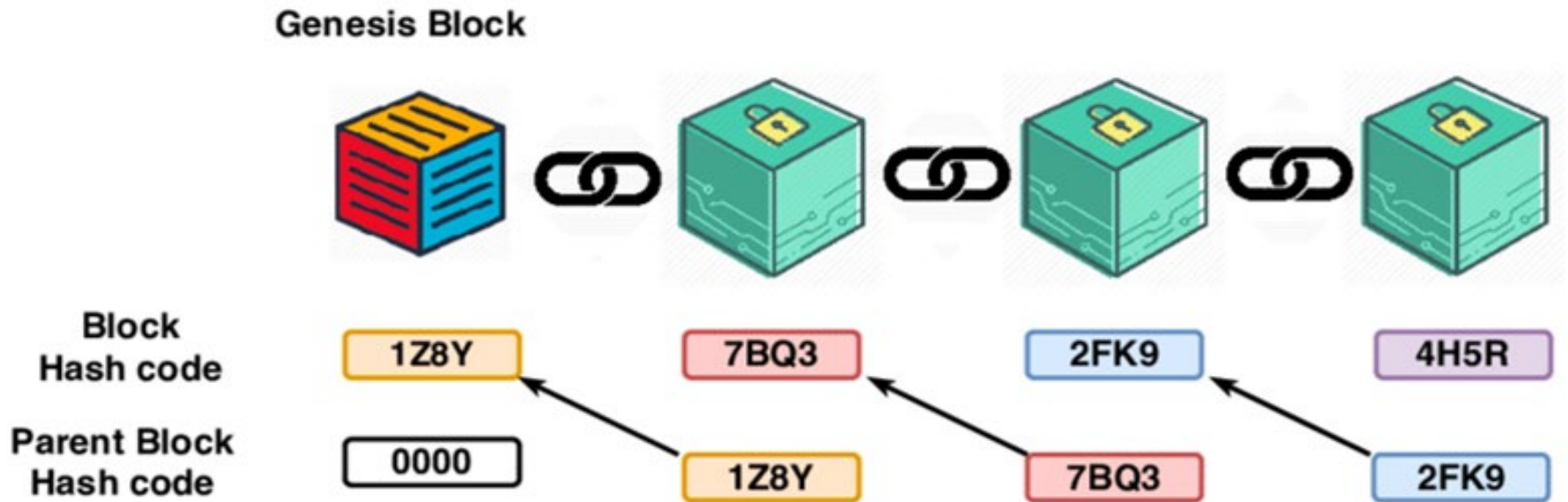
Blockchain

A blockchain is a distributed database that is shared among the nodes of a computer network. As a database, a blockchain stores information electronically in digital format.

The innovation with a blockchain is that it guarantees the fidelity and security of a record of data and generates trust without the need for a trusted third party.

A blockchain collects information together in groups, known as blocks, that hold sets of information. Blocks have certain storage capacities and, when filled, are closed and linked to the previously filled block, forming a chain of data known as the blockchain.

Blockchain



NFTs



NFT stands for Non-Fungible Token.

“Non-fungible” means that it’s unique and can’t be replaced with something else. For example, a dollar or a bitcoin is fungible — trade one for another, and you’ll have exactly the same thing. A one-of-a-kind trading card, however, is non-fungible. If you traded it for a different card, you’d have something completely different.

NFTs



Bitcoin versus the environment

Carbon Footprint

114.06 Mt CO₂



Comparable to the carbon footprint of
Czech Republic.

Hawaii:
12.8 Mt

Electrical Energy

204.50 TWh



Comparable to the power
consumption of Thailand.

Hawaii: 9.6 TWh



Regulation

“Cryptocurrencies, due to their decentralized nature, do not fit easily into existing regulatory definitions and structures. The **borderless nature** of cryptocurrencies and the absence of an identifiable “issuer” of the instrument pose challenges to regulators. Regulatory responses have ranged from providing no guidance or regulation, to issuing warnings, prohibiting banks from buying and selling cryptocurrencies, regulating certain actors in the cryptocurrency ecosystem (e.g., wallet providers and exchangers), and banning cryptocurrencies altogether.”



Regulation: National



BRIEFING ROOM

Executive Order on Ensuring Responsible Development of Digital Assets

MARCH 09, 2022 • PRESIDENTIAL ACTIONS

By the authority vested in me as President by the Constitution and the laws of the United States of America, it is hereby ordered as follows:

Section 1. Policy. Advances in digital and distributed ledger technology for financial services have led to dramatic growth in markets for digital assets, with profound implications for the protection of consumers, investors, and businesses, including data privacy and security; financial stability and systemic risk; crime; national security; the ability to exercise human rights; financial inclusion and equity; and energy demand and climate change. In November 2021, non state issued digital assets reached a combined market capitalization of \$3 trillion, up from approximately \$14 billion in early



- + Q1. What is virtual currency?
- + Q2. How is virtual currency treated for Federal income tax purposes?
- + Q3. What is cryptocurrency?
- + Q4. Will I recognize a gain or loss when I sell my virtual currency for real currency?
- + Q5. The 2020 Form 1040 asks whether at any time during 2020, I received, sold, sent, exchanged, or otherwise acquired any financial interest in any virtual currency. During 2020, I purchased virtual currency with real currency and had no other virtual currency transactions during the year. Must I answer yes to the Form 1040 question? (updated March 2, 2021)
- + Q5(a). The 2021 Form 1040 asks whether at any time during 2021, I received, sold, exchanged, or otherwise disposed of any financial interest in any virtual currency. During 2021, I purchased virtual currency with real currency and had no other virtual currency transactions during the year. How do I answer the question on the Form 1040? (added March 10, 2022)
- + Q6. How do I determine if my gain or loss is a short-term or long-term capital gain or loss?

Regulation: States



At least 153 pieces of cryptocurrency-related legislation were pending this year in 40 states and Puerto Rico.



POLICY

Wyoming Bill Paves Way for Cryptocurrency Groups, Others

Cryptocurrency executives and experts say that the state likely will add more groups that are sometimes called decentralized autonomous organizations, or DAO for short, after the passage of a new law.



Markets

US State of Nevada Passes Flurry of Blockchain Bills

Nevada is becoming a blockchain powerhouse as it passes a suite of bills designed to promote blockchain adoption

Regulation: St



At least 153 pie
pending this ye

The Ascent > Knowledge > Cryptocurrency

Which U.S. States Are Worst for Crypto Investors?

by [Emma Newbery](#) | Published on Jan. 1, 2022

2. Hawaii

Hawaii introduced a rule in 2016 that said crypto platforms needed to have equivalent cash on hand to back the crypto bought by Hawaii residents. As a result, well-known exchanges like [Coinbase](#) and Robinhood do not sell cryptocurrency there.

However, in August 2020, the state followed up with a two-year pilot program that allowed some exchanges to operate and exempted them from this rule. Following the success of the pilot, Iris Ikeda, Commissioner of Financial Institutions at Hawaii Department of Commerce and Consumer Affairs, said that she is working on new, more friendly, crypto regulation.

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Cryptocurrency e
likely will add n
decentralized a
short, a

nDesk

Passes Flurry of

n powerhouse as it passes a
e blockchain adoption

Regulation: Hawai'i

HB 2108, HD1, SD2

04/29/22 LIVE



HOUSE OF REPRESENTATIVES
THIRTY-FIRST LEGISLATURE, 2022
STATE OF HAWAII

H.B. NO. 2108
H.D. 1
S.D. 2

A BILL FOR AN ACT

RELATING TO SPECIAL PURPOSE DIGITAL CURRENCY LICENSURE.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

- 1 SECTION 1. The legislature finds that digital currencies
- 2 are assets that are primarily managed or stored electronically.
- 3 Digital currencies refer to digital currency, cryptocurrency,
- 4 e-money, network money, e-cash, and others, as defined by
- 5 various governmental jurisdictions. Digital currency may be

Regulation: Hawaii

HB 2108, HD1, SD2



Hawaii Bulletin



Bill to create license for cryptocurrency exchanges dies at Capitol

The state's "regulatory sandbox," which allowed certain companies to operate in Hawaii, will end June 30, 2022.



Ryan Kawaihine Ozawa

Apr 30



3



[House Bill 2108](#), which would have allowed cryptocurrency exchanges to secure a license to officially operate in Hawaii, was deferred indefinitely in conference committee on Friday.

H.B. NO. 2108
H.D. 1
S.D. 2

FOR AN ACT

DIGITAL CURRENCY LICENSURE.

OF THE STATE OF HAWAII:

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Mahalo!



Ryan Ozawa
ryan@hawaiihiui.com



Crypto Currency Taxation

Vera Wright

Tax Partner

CW Associates CPAs

Crypto Currency Taxation - Overview

Transaction Type	Tax Impact
As Payment for Services	Ordinary Income
Mining and earning rewards	Ordinary Income
Staking* and earning rewards	Ordinary Income
Hard Fork (Code change resulting in split) & Airdrop	Ordinary Income
Sale	Capital Gains



Crypto Currency Taxation – Infrastructure Bill

- Infrastructure Bill
 - 1099-B reporting
 - Designed to bring transparency
 - Form 8300 if transactions in excess of \$10,000
- *Unlikely that basis reporting will be accurate*
 - Consistent identification process
 - Accurate records

Crypto Currency Taxation – Staking Transactions

- Staking Transactions
 - Staked units support the blockchain operations through validating transactions on the blockchain. In exchange the units receive staking rewards.
 - Jarrett vs. United States
 - Argument – Staking should not be taxed until the units sold
 - Refund Issued
 - IRS has not taken up the case
 - Tax Options
 - Report and pay tax
 - Ordinary Income
 - Report and file for a refund

Crypto Currency Taxation – Considerations

Sale Considerations

Hold more than 1 year

Wash Sale does not currently apply

1031 Exchange not available

Track basis*

Consider loss harvesting

*

Each Unit
Date & Time Acquired
Fair Market Value at the time

IRA Contribution**

Traditional contribution and deduction

Traditional contribution and roll to Roth

Roth contribution

**

Subject to usual limitations such as earned income and income limitations.

Gifting

Facilitated through wallet

Completed transfer

Carryover basis

Report gifts on 709 if exceeds \$16K in 2022

Crypto Currency Taxation – Charitable Giving

- Charitable Giving
 - Low basis units in kind
 - Charitable Remainder Trust options
 - Does not count as a cash donation
 - not eligible for above the line deduction of \$300 or \$600.
 - May need to give up the key to qualify as a completed gift
 - Non-profit sells Crypto Currency
 - File Form 8282 if >\$500
 - File Form 8283 if >\$5,000
 - May use third party processor
 - Crypto currency immediately converted to cash
 - Cash donated to selected charity

Questions?

Mahalo nui loa!