

APRIL 2022

Hello! We hope our emails are helpful. Please forward to those handling your ministry pension contributions and make sure treasurer email addresses are placed in the **TWCHub** system. Wesleyan Pension Fund Inc does not have authority to edit information in that system. Please contact your district office to make email additions or changes.

*In our articles we use “treasurers” to mean personnel your ministry uses to handle WPF business. We use “the Plan” for the retirement income account program maintained and administered by Wesleyan Pension Fund Inc. We use **WPF** for **Wesleyan Pension Fund**, **PFG** for **Principal Financial Group** and **OPS** for **Online Payment System**.*

REMINDER: FINAL YEAR FOR MANUAL CONTRIBUTIONS! Please have your online account set up in our Online Payment System by December. Email or call our office with your Ministry Name and Denomination, Federal Tax ID, Address, Phone Number and Email Address to register your account. See “First Time Users Info” on our website for details.

OUR TOPIC TODAY: CRYPTOCURRENCIES

By the end of 2020, more than 20 million Americans owned cryptocurrency (digital currency such as Bitcoin, Litecoin, or Ethereum), and by the end of 2021 another 50 million were predicted to buy some form of cryptocurrency, according to national research. In addition, a growing number of the largest donor advised funds accept cryptocurrency donations. This rapid growth raises the question: will WPF have options to invest in cryptocurrency and should your church or ministry start accepting cryptocurrency donations?

For the WPF investment question, the answer is currently, no, we do not invest in cryptocurrency. Without government backing, it could become worthless if the demand declines and is not an investment for a corporation creating products/services that could be evaluated and monitored.

Here are some explanations for both subjects that may be of interest:

Regarding Cryptocurrency as an Investment:

(DOL = Department of Labor)

A DOL Compliance Assistance Release for 2022, cautioned plan fiduciaries about allowing investments in cryptocurrencies. Cryptocurrencies include digital assets such as those marketed as tokens, coins, crypto assets and derivatives of such. The DOL “has serious concerns about the prudence of a fiduciary’s decision to expose a retirement plan’s participants to direct investments in cryptocurrencies, or other products whose value is tied to cryptocurrencies.”

Per the DOL, these sorts of investments involve “significant risks and challenges to participants’ retirement accounts” including risks for fraud, theft, and loss from:

- Speculative and volatile nature of such investments.
- Lack of expertise to make informed decisions related to such investments.
- Custodial and recordkeeping concerns.
- Valuation concerns related to reliability, accuracy and the complexity of valuing such investments.
- Evolving regulatory environment and possibility that the sale of some cryptocurrencies could be an unlawful transaction.

EBSA (Employee Benefits Security Administration) will conduct an investigative program targeting plans that offer participants investment in cryptocurrencies and related products either through an investment option or through a brokerage window.

Plan fiduciaries should “expect to be questioned” about how they have satisfied their duties of prudence and loyalty if they offer such investments as an investment option or allow investment in the plan through a self-directed brokerage account.

Regarding Cryptocurrency for Ministry Donations:

ECFA's (Evangelical Council for Financial Accountability) recent research on best practices in nonprofit fundraising asked whether Christ-centered ministries and churches are set up to receive cryptocurrency donations. Among the 710 survey participants, 5% are ready to receive such donations. However, within that group, 74% have received one or more such gifts. We interpret this to mean that in many cases, people wanted to make a gift from their digital wallets and the church or ministry responded by setting up the process.

Helpful information from CapinCrouse LLP:

Why should a nonprofit organization consider accepting Bitcoin and other cryptocurrencies? Simply put: because it has value. Nonprofit organizations already accept a variety of noncash assets, including cars, boats, houses, and intellectual property. Cryptocurrency's current market valuation makes it attractive to donors to contribute for tax-planning purposes. Donors can contribute a highly appreciated asset and avoid income tax on the unrealized appreciation.

How can we accept Bitcoin and other cryptocurrencies? There are several cryptocurrency trading platforms available today, including Coinbase and Robinhood. More are on the way, with many brokerage firms beginning to consider a cryptocurrency platform. Each platform has advantages and drawbacks so it's important to research the differences among them, including pricing and ease of use.

What steps should we take when someone donates cryptocurrency to our nonprofit organization? The first step is proper tax reporting. A contribution of cryptocurrency valued at more than \$250 requires a standard noncash donation receipt. In addition, the IRS has classified cryptocurrency as property, not currency. Therefore, a donor must file **Form 8283, *Noncash Charitable Contributions***, to receive a charitable deduction if the property is over \$500. Further, if the contribution is valued at more than \$5,000, the donor must receive a qualified appraisal prepared by a qualified appraiser to substantiate the valuation and the organization receiving the donation must sign Form 8283.

An organization that sells cryptocurrency within three years of receiving it will be required to complete Form 8282, which could impact the donor. Another feature of cryptocurrency is that sales resulting in gains are not subject to unrelated business income.

Are there other considerations? If your organization decides to accept cryptocurrency, be sure to include it in your **gift acceptance policy**. This will guide your finance team in knowing whether to accept the transaction and the steps to take after it is received.

What if we hold cryptocurrency? What financial reporting considerations should there be? The first step is to understand where cryptocurrency should be reported on the balance sheet (statement of financial position). The Financial Accounting Standards Board (FASB) has not issued formal guidance on the question, but the topic is currently under consideration. Nonauthoritative literature has provided an analytical framework based on current FASB guidance, which excludes it from being reported as cash, a non-cash financial asset (investment), or inventory because it does not meet the definition of those three classifications. Therefore, it leaves cryptocurrency to be reported as an indefinite-lived intangible asset according to FASB ASC 360-30. Under this guidance, cryptocurrency is held at cost and evaluated for other-than-temporary impairment. When material, it should be broken out onto its own line for intangible assets and disclosed.

So why shouldn't a nonprofit organization begin accepting and investing in cryptocurrency? Risk. The valuation of Bitcoin and other cryptocurrencies continues to remain volatile, so the short-term fluctuations should be considered as part of your overall portfolio risk. Cryptocurrency is not a fiat currency (a currency with government backing), and it could potentially turn worthless if the demand declines. It also is not an investment in a corporation creating products or services that could be evaluated and monitored.

Then there are risks related to where Bitcoin is stored. Digital wallets are only as reliable as the computer they are stored on. For example, if Bitcoin is stored in a digital wallet on a computer hard drive that becomes corrupted and

is not backed up, there is a good chance the owner will not be able to retrieve the Bitcoin. Additionally, Mt. Gox was one of the most prominent Bitcoin exchanges in the world when, in 2014, all withdrawals were halted. It was speculated that the company lost hundreds of thousands of Bitcoin due to theft, which has not been uncommon with other exchanges as well.

Final Considerations:

We recommend you update your organization's gift acceptance policy to state whether or not your organization will accept cryptocurrency and if so, whether it should be held or sold immediately. It's also vital to establish clear, documented controls and monitor the account. If only one person has access to the account, there is opportunity for embezzlement.

This is not meant to be an exhaustive list of questions and considerations, but rather to help you start thinking about key cryptocurrency considerations. If your organization has questions, we recommend consulting with your accountant on tax and financial reporting issues, with an attorney on legal and compliance considerations and with an investment advisor on investment, acceptance, purchase, or sales of cryptocurrency.

***NOTE:**

-The email topics are available on our website

Serving HIM for your benefit,

DEBRA LEVITE

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