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White Paper

Non Profits Non-Adoption of Bitcoin is Alienating a Growing Donor Class

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Bitcoin: Commodity and Commerce

Thirteen years into Bitcoin's existence, numerous entities including federal agencies, elected politicians, and investment banks have confirmed the cryptocurrency's status as a store of value. As of early November 2021, Bitcoin's lifetime compound annual growth rate stood at 146%[1]. Further, there is no instance in Bitcoin's history when the price of a coin has been worth less than the price exactly four years earlier. This store of value track record is likely why the percentage of Americans who had heard of Bitcoin increased from 48% in 2015 to 86% in 2021, according to Pew Research[2].

A new Bitcoin narrative is emerging alongside the traditional store of value designation: Bitcoin as a medium of exchange. As Bitcoin gained adoption with investors in years past, some critiqued the lack of usage with payments and commerce in general. As Bill Gates noted famously, though, "People overestimate what can be done in one year, and underestimate what can be done in ten." It has simply taken some time for scalable Bitcoin payment technologies to mature.

Usage of Bitcoin in payments globally is increasing at an impressive rate. El Salvador, which in 2021 became the first nation-state to adopt Bitcoin as legal tender, significantly increased day-to-day commerce usage. Institutional investment titan Fidelity also predicts that additional nation-states will similarly adopt Bitcoin as legal tender in 2022[3]. Even before national adoption, however, many emerging market countries have used Bitcoin as a payment method for several years due to the lack of fintech infrastructure or the instability of their national currency. As an example of the tremendous growth in adoption as a medium of exchange, The Lightning Network, a second layer protocol designed explicitly for smaller Bitcoin payments, doubled in capacity and usage in 2021[4].

In hindsight, the use of Bitcoin as a medium of exchange was likely always going to lag its use as a store of value. The number of people holding Bitcoin as a store of value needed to reach critical mass before there could be a reasonable expectation that retailers, etc., would accept Bitcoin in exchange for goods and services. Now though, Bitcoin makes up an increasing proportion of its investors' net worth because of appreciation thus far and faith in that trend continuing. Today, it has become convenient for this class of investors to spend Bitcoin directly rather than first exchanging it for fiat currency for expenditures. In addition to the convenience of a global currency, many Bitcoin holders view spending Bitcoin directly as a method of expanding and accelerating mainstream cryptocurrency adoption.

A Case For Nonprofits

One sector which could benefit from the early adoption of Bitcoin payments is the not-for-profit industry. Key nonprofit benefits include more efficient donation collection methods, Bitcoin tax advantages (to both nonprofits and donors), and an increase in the proportion of each donation that reaches the charitable organization. Bitcoin holders are also younger, often 18 to 45, opening new donor segments as potential charity benefactors.

The true value proposition of blockchain is to disintermediate middlemen. Bitcoin represents this from a payment perspective as digitally native money. Nonprofits lose between 1.3% to 3.5% in processing fees of each donation given with credit cards; in many cases, additional flat fees push the total processing fee closer to 5% of the donation. Given the large sums provided to nonprofits, these percentage points can hugely impact net contributions. If a charity can secure Bitcoin payments directly, they reduce fees to an amount ranging from $5 to $25 per transaction. Even if a nonprofit hires someone to manage Bitcoin payments, such a service is obtainable for either reasonable flat fees or 1-2% of donations. Thus, payments made using Bitcoin directly can represent significant savings for the nonprofit.

Many nonprofits agree to pay credit card fees because most of their donations are collected online. Financial infrastructure can be challenging to create, especially for a small staff, so relying on status-quo payment processing mechanisms appears more straightforward. Fortunately, the Bitcoin community is changing this paradigm by creating numerous free software payment solutions as open-source options. While there are still technical barriers of entry to implement these Bitcoin programs, the free nature of these programs will prove to be deflationary and therefore keep implementation services at low costs.

1 https://www.yahoo.com/now/compounding-saving-bitcoin-power-dollar-125000227.html
2 https://www.pewresearch.org/fact-tank/2021/11/11/16-of-americans-say-they-have-ever-invested-in-traded-or-used-cryptocurrency/
3 https://www.fidelitydigitalassets.com/articles/2021-trends-impact
4 https://www.thestreet.com/crypto/bitcoin/adoption-of-bitcoins-lightning-network-continues-to-surge

For tax purposes in the U.S. (and many other jurisdictions), Bitcoin is viewed as property. This designation has somewhat limited Bitcoin's use as a payment method in the past, as each sale is a taxable event. However, benefactors have attractive incentives to use Bitcoin as a donation method. If a Bitcoin investor were to sell a portion of their holdings, they would be responsible for paying capital gains tax on the profit, the percentage of which depends on how long they held that particular asset and how much profit the sale generated. For holders that decide to donate some of their Bitcoin, however, they will pay no capital gains and receive a tax write-off for their contribution. This often leads savvy Bitcoin investors to donate a portion to an endowment, thus reducing their overall tax burden for the year so they can also take some profit on other Bitcoin holdings. At the end of the day, many investors would like to see the value go to a charity of their choice than the IRS.

Taxes help the recipient nonprofits as well, or more accurately, lack thereof. Given the tax-exempt status of nonprofits, they can choose to engage in the appreciation aspects of Bitcoin without fear of a burdensome capital gains bill in the future. While many charities liquidate most, if not all, of their Bitcoin donations immediately, more and more are choosing to embrace the volatility, which has led to the rapid value appreciation and holding a portion of Bitcoin donations on their balance sheet. The starkest example of this practice is the Bitcoin Water Trust[5], which takes Bitcoin transactions for use no earlier than January 2025. This "cold-storage" or "time capsule" methodology has already produced more than $4 million in funds as of the time of writing.

Volatility?

The main concern for many nonprofit decision-makers is Bitcoin's volatility. Ultimately, the fear is that donations will depreciate materially before a charity could convert the value to dollars or other fiat currency. We argue there are two aspects to consider when viewing Bitcoin volatility: would volatility markedly depreciate a charity's holdings, and are the volatility risks outweighed by the potential gains captured when the donor base expands to include Bitcoin enthusiasts?

Using the traditional credit card payment fee percentage of 5%, we surveyed the 365 days preceding 12 January 2022 to determine similar volatility in the price of Bitcoin. Only 64 days saw Bitcoin's price rise or fall more than 5% during the year we sampled. Of those 64 days, there were 32 days of 5% or greater appreciation and 32 days of similar-sized depreciation. The average gain on those days of appreciation was 8.25%, and the average loss on the days of depreciation was 8.11%. A reasonable conclusion from this data is that a charity's Bitcoin holdings would retain value as the aggregate intraday gains and losses cancel each other out while the overall annual compound growth of Bitcoin remains 146%.

Focusing on concerns regarding Bitcoin donations versus those using traditional dollar mechanisms may cause nonprofits to miss a critical point. The more salient concern might be: Are nonprofits omitting an entire new donor base who only have Bitcoin to give? As stated before, multiple classes of Bitcoin holders want to donate their newfound wealth for various reasons but would be disadvantaged by first converting their digital currency to dollars to pay a charity. Excluding Bitcoin as an option could unwittingly alienate a new patron group that possesses a piece of an asset class that has grown to more than a trillion dollars in a little over a decade.

There is certainly some benefit in convincing existing donors to paying in Bitcoin because of smaller fees. However, there is potentially enormous value in exposing a philanthropic effort to a new support base. Both advantages can be had with one implementation, making a case for Bitcoin donation adoption even more sound.

About the Author

Jacob Langenkamp is an advisor to Qubic Labs, providing research and insight into different topics within the blockchain arena. Jacob has studied the intersections of digital assets with numerous issues, including energy, payments, pension allocation, and corporate treasuries. Jacob is currently the Managing Director at IdenX, a data aggregation and research company.

5 https://www.charitywater.org/bitcoin#