Fiscal Sponsorships: A Review of Legal and Practical Issues

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What is a Fiscal Sponsorship?

- Involves a 501(c)(3) charitable organization (known as a Fiscal Sponsor)
- Fiscal Sponsor is willing to accept contributions to fund a project housed at the Fiscal Sponsor or being sponsored by a non-charitable organization
- In effect, the Fiscal Sponsor “lends” its 501(c)(3) status to a charitable project that does not have its own 501(c)(3) status
- Fiscal Sponsor maintains control of funds raised – not a “mere conduit”
- Typically, the Fiscal Sponsor qualifies as a public charity and houses multiple funds
- The project can conduct fundraising activities through the Fiscal Sponsor

Why the Increased Use of Fiscal Sponsorships?

- Time and expense involved in securing IRS exemption
- Need to accept charitable donations quickly
- Expense involved in maintaining and running a separate charitable organization
- Need for “back office” support
- Increased demand for “short-term” charitable projects

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Who are the Players?

- Fiscal Sponsor – 501(c)(3) organization
- The “Project” (Fiscal Agency)
- The “Committee” administering the project
- Donors
  - Foundations
  - Individual givers

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When is a Fiscal Sponsorship Useful?

- Individuals don't want to create their own charity to carry out a project
- Project is a short-term project (renovate a park, build a playground, create artwork)
- Newly formed charity has not received its IRS determination letter and needs a vehicle to accept contributions
- Want to fund a project that does not have 501(c)(3) status but make available a charitable deduction for contributions
- Disaster relief
- International grantmaking (Fiscal Sponsor will do the work)
- Hardship funds

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Types of Fiscal Sponsorships

- **Model 1** - Charitable project is housed inside the Fiscal Sponsor
  - Project belongs to the Fiscal Sponsor
  - Deductible contributions are made to the Fiscal Sponsor
  - Fiscal Sponsor or the administrative committee can conduct fundraising for the project
  - Fiscal Sponsor can employ staff or independent contractors to run the project
  - Foundations can make grants to the Fiscal Sponsor – but foundations should undertake some due diligence

Types of Fiscal Sponsorships

- **Model 2** - Fiscal Sponsor can fund a charitable project being run by an unrelated "non-charity"
  - Fiscal Sponsor approves the project
  - Fiscal Sponsor collects contributions to fund the project
  - Project applies to Fiscal Sponsor for grants
  - Project responsible for its own tax return, employees, etc.

Types of Fiscal Sponsorships

- **Model 3** - Technical Assistance – Project may contract with Fiscal Sponsor to provide administrative assistance
  - Bookkeeping
  - Recordkeeping
  - Accounting
  - Investment
  - Management services
  - Payroll
  - Fundraising

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Fiscal Sponsorship Agreement

- Fundraising responsibilities
- Grantmaking terms
- Staffing/employee issues
- Termination provisions
- Intellectual property rights
- Ownership of project
- Contract rights
- Insurance
- Fees

Advantages of a Fiscal Sponsorship Arrangement

- Simplicity
- Can act quickly
- No need to create own charity
- Helpful for short-term projects
- Can serve as an “incubator” – see if project “has legs”
- Foundations can make grants since Fiscal Sponsor is a 501(c)(3) public charity
- Can be helpful in international grantmaking
- Can be useful in making employee hardship distributions – can fund both Qualified Disaster Relief Payments (Presidentially declared disasters) and emergency hardship payments (funeral expenses, uninsured health issues, etc.)

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What are the Con's?

- Fees
- May lose independence – Fiscal Sponsor will determine whether to fund project
- May lose goodwill associated with having own foundation
- Need to make sure Fiscal Sponsor is well run and stable

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Alternatives to a Fiscal Sponsorship

- Donor Advised Funds (DAFs) – create fund at a sponsoring charity and retain advisory rights
- Crowdfunding – can fundraise for any cause, not just charitable causes

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