

# Helping Others Grow: The Nuts and Bolts of Fiscal Sponsorships

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Has your nonprofit ever been involved with getting a new nonprofit activity launched through receiving funds for a specific project, allowing such funds to be spent for the project, and perhaps even seeing the project blossom into its own Section 501(c)(3) organization? These arrangements are commonly known as “fiscal sponsorships.”

Fiscal sponsorships may take a variety of forms, but generally they involve innovation, some degree of control and supervision, and an accompanying agreement to address relationship details. Here’s what responsible nonprofit leaders need to know about fiscal sponsorships, if their organization will serve as a fiscal sponsor or if they are the beneficiary recipients of such arrangements.

## Building Blocks for Fiscal Sponsorships

As a key foundational matter, a nonprofit must operate in furtherance of its tax-exempt mission, as stated in the organization’s corporate purpose statement (typically located in its articles of incorporation and bylaws). Consequently, a potential project candidate must fit within the sponsoring organization’s mission, whether broadly speaking (e.g., to promote a religious or humanitarian purpose) or narrowly (e.g., to promote solar energy use or literacy). A project outside the sponsoring organization’s corporate purpose should get launched elsewhere.

Fiscal sponsorships are ideal for when a project is in its infancy. The key leaders may not yet know whether it would be wise and prudent to start a full-fledged nonprofit public charity with the accompanying seed money, board development, administrative knowledge and expense, and other resources needed for a full-scale nonprofit start-up. By beginning a nonprofit project “in house” with a fiscal sponsor, the leaders will be able to test the waters and to enjoy the administrative support, legal protection, and oversight provided by a fiscal sponsor. A fiscal sponsorship project may alternatively be separately incorporated, which may be preferable in terms of risk management implications, but still to grow operationally under the sponsor’s wing.

A fiscal sponsor that carries out its role properly is legally obligated to exercise control and discretion over the project’s funds. This does not mean that the fiscal sponsor must actively manage the project or run its operations, nor would it be expected to do so. Rather, the

fiscal sponsor simply needs to make sure that the project is operated responsibly, consistent with the sponsor's overall mission and otherwise in accordance with Section 501(c)(3) requirements – as the sponsor would require for any other internal project.

Perhaps most significantly for some, a fiscal sponsorship allows tax-deductible contributions to be made to the sponsor for eventual distribution to the sponsored project. This valuable attribute of fiscal sponsorship provides flexibility for project development and optimal advantage to donors. The reason why such favored tax advantage exists is because, as stated above, the fiscal sponsor is legally responsible for the project. As a corollary matter, the fiscal sponsor should consider the resulting impact on its Form 990 reporting, since the funds raised will comprise part of the fiscal sponsor's total revenues and the funds distributed should be shown as an identifiable "program activity." Note further that the fiscal sponsor may obtain a DBA or "assumed name registration" in the project's name (assuming no separate incorporation), so that the project can gain some name recognition and branding in anticipation of its eventual autonomy and independent corporate existence.

## What Does a Fiscal Sponsorship Look Like?

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Fiscal sponsorships typically take one of three forms: (a) a "baby" project incubating from within a well established nonprofit public charity and nurtured well by such organization as the sponsor; (b) a new project brought to a well established nonprofit's attention by others, with the hope that such nonprofit will be willing to help supervise the project (or at least allow it to grow within the nonprofit); or (3) a project needing a nonprofit "home," typically for a one-time event or other purpose for which charitable contributions will be sought for such limited purposes. The type of fiscal sponsorship will in turn raise additional considerations beyond the foundational aspects listed above.

Examples abound of the first form of fiscal sponsorship, though perhaps the most well known form is an incubator model. For example, imagine that some church leaders identify a community need and seek to address them through a para-church effort, to broaden charitable support and perhaps even garner government grants or other financial resources not available to the church. It may be best to incubate within the church, to explore how well the project can operate and the extent of needs it can address. Or perhaps a thriving nonprofit identifies a specific area of need that could be best addressed through a different organization, with its own unique leadership, focus, operational model, and/or funding sources. Again, incubation can provide valuable information and opportunities for healthy initial growth.

An excellent example of the second form of fiscal sponsorship is reflected by Good City, which is a Chicago nonprofit dedicated to incubating nonprofit ventures ([www.goodcitychicago.org](http://www.goodcitychicago.org)). As a fiscal sponsor for many projects, Goodcity provides

program oversight, training, charitable receipting to project donors, and other infrastructure support very intentionally. Through Goodcity's fiscal sponsor services, new projects may grow and eventually launch as their own independently governed and operated Section 501(c)(3) public charities. Goodcity charges administrative fees for such sponsorship, but the cost may well be worth the benefits of getting help with a new nonprofit's start.

The third form of fiscal sponsorship may be more unusual, but it has its place too. Occasionally, a person, other nonprofit, or even a business may approach a well established nonprofit, seeking to run a special project through the nonprofit. For example, a business owner may wish to carry out a charitable activity for which donors are willing to contribute (and are expecting charitable contribution receipts), like developing a documentary film or putting on a special community event. Or perhaps another nonprofit has a special opportunity to carry out a charitable project but lacks the board strength or staff resources to do so. In either case, the well established nonprofit may be well poised to take on the project as its fiscal sponsor, so long as the project fits its mission overall and the fiscal sponsor is willing to exercise the requisite control and oversight.

## Structuring a Fiscal Sponsorship

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As with many other arrangements involving allocation of responsibilities, financial aspects, and potential liability, fiscal sponsorships should be memorialized in a written agreement. The agreement may address a variety of areas such as the following:

- Project scope, and how the project fits within the sponsor's mission;
- Allocation of responsibility for carrying out the project;
- How charitable donations will be handled and receipted;
- The extent of reporting and other accountability shown to the fiscal sponsor;
- To what extent the fiscal sponsor will get paid (e.g., 5% of all charitable contributions designated for the project);
- To what extent the fiscal sponsor will provide training and similar educational resources;
- Ownership of any intellectual property developed through the project; and
- Term of the fiscal sponsorship, including an exit strategy for terminating the sponsorship.

## Growing Up – Transitioning

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If a sponsored project grows and flourishes, then at some point it likely needs to be established as its own nonprofit entity, with its separately obtained Section 501(c)(3) IRS approval. Ideally, the project's leaders will have learned much from the fiscal sponsorship season, and they will be well positioned to operate independently. By that point, the project

shall have capable leaders in place for a robust board, a strong understanding of how to operate a nonprofit public charity, a growing list of donors for continued financial support, and active programs that are carried out well.

With this background, it should be quite feasible for the project's leadership to articulate its mission and other necessary information for the initial nonprofit corporate documents. In addition, the leadership should be able to translate its operational information to the IRS Form 1023 tax-exemption application, which call for a description of charitable program activities, corresponding financials, leadership information, and corporate documents consistent with Section 501(c)(3) status.

As part of its transition to independence, the nonprofit also may wish to transfer funds from the fiscal sponsor to the new organization. That should be accomplished as part of the new entity's separation and growth, and will full accountability from the fiscal sponsor for funds received and designated for the sponsored project. And as a tail-end precautionary measure, the new nonprofit may wish to continue receiving donations through the sponsor until IRS approval is obtained.

## Concluding Thoughts and Questions

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Should a nonprofit public charity serve as a fiscal sponsor? Should a new nonprofit venture begin as a project under a fiscal sponsor's wing? The answers to these questions, and the type of fiscal sponsorship form to use, depend on multiple factors. For potential fiscal sponsors, the leaders should evaluate the project's mission, the specific needs of the project, and the organization's capacity to help out. For project leaders, they may already be ready to start their own nonprofit entity or instead may need this "leg up" for getting started. No matter how these questions are answered, careful attentiveness should be given to project goals, each party's capacity and capability to follow through, how a project will be carried out, and accompanying fiscal sponsorship documentation.

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