

Community Economic Development Law Project

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FISCAL SPONSORSHIP FAQ

The Basics: Fiscal Sponsorship Relationships

This is a FAQ about fiscal sponsorship relationships. The questions and answers below are meant to assist not-for-profit organizations interested in partnering with a fiscal sponsor. Commonly asked questions are addressed, but the answers are not a substitute for legal advice. Organizations considering a fiscal sponsorship relationship should consult an attorney experienced in such matters.

What is a fiscal sponsor?

A fiscal sponsor is an established not-for-profit organization with recognition of income tax exemption from the IRS that agrees to work together with another entity so that entity can begin its activities and be funded by charitable donations. Most agreements with fiscal sponsors are formal, based on a written contract. Most fiscal sponsors will charge a fee for their sponsorship.

What is a sponsored organization?

The sponsored organization may be an unincorporated not-for-profit organization without tax-exempt status. The organization may also be incorporated and awaiting notification of its tax-exempt status, or has tax-exempt status, but lacks certain administrative capabilities and desires the assistance of a fiscal sponsor.

Why should a not-for-profit organization use a fiscal sponsor?

A new organization often seeks fiscal sponsorship to facilitate receiving financial support from potential donors. A new organization may want to use a fiscal sponsor when:

- It needs funding but does not have tax exemption.
- It has interested donors, but does not have tax exemption.
- It is unsure of the success of the organization and would like to pursue donations before committing money and time to setting up an independent not-for-profit organization.
- Several smaller not-for-profit organizations want to ally themselves under the umbrella of a larger, more experienced, not-for-profit organization. The larger organization may receive and administer funds on behalf of the small organizations and handle administrative and other matters for the smaller

organizations.

- It only intends to operate for a limited period of time. For example, following a tragedy, a group may want to raise money to support the victims. By contacting a fiscal sponsor, the group is able to immediately begin collecting donations and pursuing their mission.

What are the advantages of using a fiscal sponsor?

With a fiscal sponsor, a not-for-profit organization, incorporated or not, can (through the sponsor) apply for and receive grants, and tax-deductible donations. The new organization can begin its operations and carry on its activities under the tax-exempt status of the sponsor. However, the activities of the sponsored group must be consistent with those of the sponsor. For example, a not-for-profit providing services for the homeless cannot have a fiscal sponsor that is tax-exempt for the purposes of providing music programs for schools.

The fiscal sponsor should be more experienced and be able to provide multiple services to the not-for-profit organization. A not-for-profit organization interested in autonomy and control over its own resources and actions should consider that entering a fiscal sponsorship relationship may limit its control.

What are the disadvantages to the new organization of using a fiscal sponsor?

A fiscal sponsor will charge a fee for its services. The fiscal sponsor serves as a "parent organization" to a sponsored organization. As such, it is legally responsible for the organization. This includes the responsibility to comply with the terms of the grants awarded and how the organization operates. If a not-for-profit organization and its fiscal sponsor disagree, the organization will have to comply with the sponsor's requests. Most importantly, the funds received are under the control of the sponsoring organization.

In addition to the tax exemption, what services can a fiscal sponsor provide?

A fiscal sponsor's services vary depending on the sponsor. However, here are a few possible services provided through a fiscal sponsor relationship: financial, tax & information returns, payroll filings, monthly financial statements, financial record-keeping, insurance, personnel policies in compliance with laws, employee benefits package, bulk rate postal permit, legal advice, grant progress reports and general administration.

What is a fiscal sponsorship agreement?

A fiscal sponsorship agreement is a contract between the sponsor and the sponsored organization. A fiscal sponsor will often have a standard contract used to sponsor a not-for-profit organization. Based on the specific needs and circumstances of a sponsored organization, this standard agreement can be modified. The contract will establish the relationship between the sponsor and the not-for-profit organization it is sponsoring.

The duties, responsibilities and expectations of each party should be clarified in the sponsorship agreement. A not-for-profit organization being sponsored should carefully

consider its obligations under the contract. It is a legally enforceable document and it should be reviewed by an attorney representing the not-for-profit organization's best interests.

Samples of fiscal sponsorship agreements are available online. Here is an example:

<http://www.compasspoint.org>

[Under *Resource Directory* on the left side of the site, go to *Nonprofit Genie (FAQs)*. On the pull-down menu, select *Fiscal Sponsorship*. The third link listed will provide a sample fiscal sponsorship agreement.]

What should a fiscal sponsorship agreement include?

A fiscal sponsorship agreement should:

- be in writing and approved by both organizations;
- establish standards of performance for evaluating the relationship;
- specify the duties and responsibilities for both parties;
- establish a reasonable fee for the fiscal sponsor's services;
- detail any goods or services the fiscal sponsor shall provide – this should include providing all federal, state and local tax and information returns.
- provide a mechanism for requesting and disbursing funds; and
- establish a term for the relationship and termination procedures.

Several other issues may be addressed in a fiscal sponsorship agreement. Negotiable terms should be discussed with an attorney representing the not-for-profit organization.

What should a not-for-profit organization look for in a fiscal sponsor?

A fiscal sponsor will have a significant impact on the success of the sponsored organization. A not-for-profit organization should select a fiscal sponsor carefully.

Desirable characteristics of a fiscal sponsor include:

- Good reputation in the donor community.
- Solid financial position.
- Strong support staff and services.
- Similar charitable purpose.
- Experience acting as a fiscal sponsor.

Before entering a fiscal sponsorship relationship, a not-for-profit organization should determine that the charitable missions of each party are similar. Most other issues should be addressed in a fiscal sponsorship agreement.

How does a not-for-profit organization find a fiscal sponsor?

Many fiscal sponsors fund by geography or issue area. Some of the places to inquire about fiscal sponsorship services are: a local community foundation, attorneys who

specialize in not-for-profits, prospective donors, or an internet search under "fiscal sponsorship."

A great internet resource to find a fiscal sponsor is at the Capaciteria open database listing fiscal agencies. Capaciteria is comprehensive, searchable database directory of administrative resources that help not-for-profit organizations. Their fiscal sponsorship database is located at:

<http://capaciteria.org/index.php> [scroll down to *Fiscal Sponsorship/Agency Demystified*]

How much do fiscal sponsors cost?

The fee arrangement of fiscal sponsors varies with each sponsor. Typically, a full-service professional fiscal sponsor will probably cost a sponsored organization between five and twelve percent of gross receipts. Some sponsors will pay interest to the not-for-profit for collected donations and some do not. Most often, these costs are contracted and can be negotiated for a fiscal sponsorship agreement. A sponsored organization should contact an attorney to represent its best interests in a fiscal sponsorship relationship.

What if the not-for-profit no longer wants a fiscal sponsor?

The terms of the fiscal sponsorship relationship should be in writing before the relationship begins. A well-written sponsorship agreement will have a mechanism to deal with how to terminate the relationship.

If the sponsored not-for-profit organization has decided to terminate the sponsorship agreement, the first step is to inform your current sponsor. If the organization would like to be independent, it will need to incorporate on its own as a not-for-profit and file for tax-exempt status. This process will usually take four to six months. After obtaining tax exemption, a previously sponsored not-for-profit organization can arrange to have the fiscal sponsor transfer the organization's assets and liabilities to the newly established not-for-profit.