Fiscal Sponsorship & Multi-entity Structures

What are they, and how do we know when to use them?

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Fiscal sponsors can use separate legal formations to...

- **Allocate Risk** - distributing financial, legal, compliance and other risk centers.
- **Separate Financial/Operational Processes** - Creating different financial accounts, employment relationships, banking, HR policies, financial policies.
- **Manage Multiple Tax/Compliance Statuses** - Managing funds subject to different tax exemptions, such as for-profit, (c)(4), (c)(5), (c)(13), etc.
- **Manage Optics & Relationships** - Permitting different donor/vendor transaction partners, separate public naming and identity.

Why build multi-entity structures?
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The decision to introduce multiple entities into your fiscal sponsorship practice is not linear or even scientific.

It often involves one or more of these considerations to differing degrees of saliency.

In all cases, there will be added direct and indirect costs in managing with multiple entities, so the gains have to outweigh the costs in the end.
### Consideration Areas

<table>
<thead>
<tr>
<th>Risk Allocation</th>
<th>Finance/Ops Separation</th>
<th>Multiple Tax Statuses</th>
<th>Optics/Relationships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activities with high risk profile</td>
<td>Funds/operations segregation</td>
<td>501(c)(4) Social Welfare Org</td>
<td>Separate transacting name</td>
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<tr>
<td>Activities that court litigation</td>
<td>Portability/ease of spin out</td>
<td>501(c)(5) Agricultural &amp; Labor Org</td>
<td>Separation of assets</td>
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<td>Major contract obligations</td>
<td>Separate HR policies/benefits</td>
<td>501(c)(13) Cemetery Corp</td>
<td>Separation of ops centers</td>
</tr>
<tr>
<td>Special compliance risks</td>
<td>Solving “single-EIN problems”</td>
<td>For-profit (taxable) activities</td>
<td>Separate authorities/control</td>
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**SCALE (SIZE/SALIENCE) of CONSIDERATION**
Individually or collectively, informs the “threshold” decision to implement a multi-entity structure.
Two Basic Kinds of Relationship

**SUBSIDIARY**
- Sponsor
- Common Control (Governance)
- Project 501(c)(3)
- Subsidiary CORPORATION TRUST LLC
- Sole-member Governance + Management Agreement
- Pays Vendors, Contractors, Employees

**AFFILIATE**
- Sponsor
- Separate Control (Governance)
- Separate Governance + Management Agreement
- Project Separate 501(c)(3)
- CORPORATION TRUST LLC OTHER?
- Pays Vendors, Contractors, Employees
Don’t forget your own capacity due diligence!

- Internal capacity assessment and readiness of your team and key partners and vendors to enter into this work with you.

- Clear stance on how equity considerations will influence the choice of which organizations to work with and how to structure the relationship.

- Clear strategy for what kinds of organization cases you want/can take on: i.e., stabilization may be more labor intensive than strategic growth.

- Due diligence, risk assessment, and clear strategic framework for organizing activity under different legal structures.
Sample Case: Fiscal Sponsors Supporting 501(c)(4) Advocacy

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<td>Street-level activism/protest</td>
<td>Funds/operations segregation</td>
<td>501(c)(4)</td>
<td>Separate transacting name/identity</td>
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<tr>
<td>Legal activism (litigation)</td>
<td>Separate HR policies/benefits</td>
<td>Will engage in prohibited political activity, per IRC</td>
<td>Separate governance</td>
</tr>
<tr>
<td>Need for special insurances</td>
<td>Activities will exceed safe harbor limit for 501(c)(3)s</td>
<td>Separation of ops centers</td>
<td></td>
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</tbody>
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Here the combination of high-risk activity, the need for special insurances, the likelihood of exceeding the (c)(3) limits for lobbying, and the need for separate governance for (c)(4) tax status = Separate Affiliate 501(c)(4) Corporation
Sole Member Corporation/Trust Relationship

Income Sources
- Foundation Grants
- Government Grants
- Corporate Gifts
- Individual Gifts
- Earned Income

Project 501(c)(3)
Subsidiary CORPORATION or TRUST

Sponsor

- Sole-member Governance + Management Agreement

Pays Vendors
Contractors

Employees

- Remains In Full Operation
- Files Separate Full 990
- Separate Insurances
- Consolidated Statements
- Board Becomes Co-fiduciary with Sponsor

Attributes
- Both entities maintain separate tax statuses
- Close, whole/partial control relationship
- Core “Model A” services/resources
- Co-management relationship
- Boards may be distinct but share some members
- Sponsor responsible for compliance (both entities)
- HR/vendor relationships housed in subsidiary or sponsor

Potential Uses
- Compliance/insurance costs – managed by sponsor
- Programs operate by subsidiary/sponsor is back office
- Shared legal, compliance and operating
- Employee liabilities held or not held by subsidiary
- Ease of spin out - simple reverse change in control
- Avoids UBIT risk in providing/charging for services
- Subsidiary board remains in place (if a pre-existing, tax-exempt entity)
Disregarded Entity or Single-member LLC

**Attributes**
- Subsidiary establishes tax status from the sponsor
- Close, whole/partial control relationship
- Core “Model A” services/resources
- Co-management relationship
- One board (sponsor)
- Compliance is consolidated
- HR/vendor relationships housed in subsidiary or sponsor

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- Compliance/insurance costs – managed by sponsor
- Programs operate by subsidiary/sponsor is back office
- Shared legal, compliance and operating
- Employee liabilities held or not held by subsidiary
- Ease of spin out - simple reverse change in control
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