

Fiscal Sponsorship FAQ for Grant Seekers

1. What is a fiscal sponsorship?

Fiscal sponsorship is an arrangement between a 501(c)(3) charitable organization (the “Sponsor”) and a person, group, or organization, that usually, but not always, does not have its own 501(c)(3) public charity tax-exempt status (the “Project”), in which the Sponsor agrees to accept certain tax-deductible donations for use by the Project. In order for a Sponsor to undertake a fiscal sponsorship arrangement, the Sponsor’s and the Project’s missions must be aligned.

2. What services does a fiscal sponsor provide?

A Sponsor can assist the Project with a variety of services, including: (1) program management, including financial/accounting services; (2) fundraising; (3) facilities for office space and equipment; (4) assisting with preparing all requisite state and federal government reports and informational returns; (5) technical support; (6) insurance; (7) human resources/payroll services.

3. Do I need a fiscal sponsor?

If the Project serves a charitable purpose, but you have not obtained 501(c)(3), a fiscal sponsorship is the only method by which you can receive tax-deductible donations and charitable grants for the Project. There are several benefits to consider:

- Fiscal sponsorship provides an efficient way to gain access to funding. Entering a fiscal sponsorship agreement can broaden the Project’s funding options without subjecting it to the additional process of applying for its own tax-exempt status.
- A Project can benefit from the expertise of a more experienced organization that may handle administrative and other duties on its behalf.
- A fiscal sponsorship agreement can facilitate a Project that only needs to operate for a limited period of time.
- The support of an experienced organization may bring a level of credibility to the Project that may lead to new opportunities for fundraising, relationship-building with other organizations, and increased visibility to obtain volunteers, employees, and supporters.

If your organization already has a 501(c)(3), you will not need a fiscal sponsor in order to receive tax-deductible donations and charitable grants, but it may be beneficial to utilize a Sponsor if your organization’s administrative infrastructure is not yet developed enough to receive and manage large, complicated grants. A Sponsor can provide administrative support to emerging organizations needing assistance with payroll, accounting, and grant reporting.

4. How do I go about identifying a fiscal sponsor? What should I look for in a fiscal sponsor?

An ideal Sponsor is one whose mission aligns with the work of your Project and with whom you already have an established and trusted relationship. The IRS requires that the Sponsor only distribute funds to a Project that engages in activities “that are in furtherance of [the Sponsor’s] own exempt purposes.”¹ Here are some questions to consider:

- Do you trust the prospective Sponsor?
- Does your mission align with the prospective Sponsor’s mission?
- Does the prospective Sponsor serve the same or similar constituents as your Project?
- Does the prospective Sponsor serve the same or a similar geographic region as your Project?
- Does the prospective Sponsor have the time and resources to sponsor your Project?

¹ See Rev. Rul. 68-489, 1968-2 C.B. 210

5. What should a strong fiscal sponsorship agreement include?

As with other contractual relationships, the parties to a fiscal sponsorship should have a clear understanding of the arrangement and memorialize that understanding in writing.

A fiscal sponsorship agreement should ideally include the following:

- A description of the benefits and services to be provided by the Sponsor and the scope of the Sponsor's support (e.g., will the Sponsor support a specific program or all the Project's charitable activities)
- A statement that the funds received on behalf of the Project only be used in furtherance of the Sponsor's mission
- A solicitation and contribution acceptance policy
- A fund request and distribution process
- An administrative fee structure
- Recordkeeping and reporting obligations
- Liability and indemnification provisions
- Insurance requirements
- Ownership of intellectual property
- Term of the agreement
- Termination process

For your convenience, the CFCF team have prepared a fiscal sponsorship agreement template that reflects the components listed above. This documents can be downloaded [here](#) and should be edited to reflect the exact terms as agreed upon by the Project and the Sponsor.

6. Are there any disadvantages to using a fiscal sponsor?

One disadvantage to fiscal sponsorship is that the Project does not have direct ownership or control over the funds received on its behalf. A Project may request funds for a certain activity; however, it is ultimately the decision of the Sponsor as to how those funds will be disbursed. Typically, a well-drafted agreement will set forth parameters that ensure funds are expended as intended, minimizing any potential conflict between the Project and the Sponsor. Another disadvantage is that the Sponsor will usually charge a fee for its services, which is a percentage that typically ranges from 1-10% of the Project's contributed support.

7. Am I required to be pursuing a 501(c)(3) designation in order to obtain a fiscal sponsor?

It is a common misconception that a Project must be actively seeking or planning to obtain a 501(c)(3) designation from the IRS in order to obtain a fiscal sponsor. This is not true. Whether the Project plans to become a 501(c)(3) or not, it can seek fiscal sponsorship.

8. Am I more likely to receive a grant with a fiscal sponsor?

There are several factors that contribute to whether an applicant receives a grant or not, and having a fiscal sponsor does not guarantee that you will receive funding. For large grants—especially federal, state, and municipal grants—having a fiscal sponsor can provide some helpful back-office support to emerging organizations with less accounting and financial reporting experience. A Sponsor often gives the funder confidence that the Project will be able to meet rigorous financial compliance requirements. In an ideal fiscal sponsor relationship, the Sponsor will help to develop the Project's infrastructure so that they can manage large grants on their own in the future.

In some instances, a funder stipulates specific requirements for grant applicants, such as a minimum budget size or minimum number of years in operation as a 501(c)(3). In cases like these, a Sponsor could help a Project meet these requirements if it would not on its own. However, the Project and

Sponsor should first contact the funder and/or review the grant guidelines to confirm that such a fiscal relationship is permissible.

9. If I don't have a 501(c)(3), what options do I have other than obtaining a fiscal sponsor?

Without a 501(c)(3) or a fiscal sponsor, there is no way for individuals, organizations, or corporations to make tax-deductible donations or charitable grants to your Project. It is possible, however, to finance your project through other means:

- You may obtain low- or no-interest loans through programs like the Kheprw Institute's [Recoverable Loan Fund](#) or IMPACT Central Indiana [PitchFeast](#). One disadvantage, however, is that these funds must be repaid over time.
- You can raise funds through gifts and crowdfunding; however, these contributions will not be tax-deductible for the donor.