

Fiscal Sponsorship Basics

Fiscal sponsorship is a contractual arrangement in which a 501(c)(3) sponsors a project for a group that does not have tax-exempt status. It allows the group to seek grants and solicit tax-deductible donations under its sponsor's tax-exempt status. Typically, a nonprofit would offer its legal and tax-exempt status to a group or project engaged in activities related to its mission. It can be an effective way to launch a new program idea, provide a time-limited service or start a new nonprofit. There are risks and benefits to both parties, so it's important to consider each carefully.

Reasons to Seek a Fiscal Sponsor

Groups seek a fiscal sponsor for a variety of reasons.

- The arrangement allows them to receive donations without tax-exempt status.
- It can alleviate donor wariness about supporting a new cause and improve access to funding.
- Fiscal Sponsorship can bring credibility to the new cause.
- It provides infrastructure that a new group does not have, usually in the areas of:
 - Human resources
 - Accounting and bookkeeping
 - Fundraising
- It can be a cost-effective solution to obtaining financial and administrative services.
- The arrangement can provide an efficient solution to a short lifespan project.
- Fiscal Sponsorship can also assist nascent projects in developing the necessary organizational capabilities to eventually spin off as independent nonprofits.

The role of the fiscal sponsor typically includes handling the administrative responsibilities of receiving and administering charitable contributions on behalf of the sponsored organization. In return for these services, the fiscal sponsor is usually paid a reasonable fee.

Benefits to the Sponsoring Organization

An existing nonprofit becomes financially responsible for the project for which it serves as fiscal sponsor, so it assumes a level of risk and the responsibility of oversight. But there are compensating advantages to the sponsoring organization.

- The sponsoring organization may attract new funders to its own programs.
- The grant money brought in may help to defray some indirect costs for the sponsoring organization.
- The fees provide an additional source of income.
- The sponsoring organization shares the honors and benefits if the project is successful.
- A new project can help the sponsor meet its missions by expanding its own services or programs with a minimal financial outlay from its own annual budget.
- The sponsor can be viewed as an innovative and creative entity, associated with thoughtful, fresh ideas.

Because of the administrative responsibilities involved, it is best to formalize fiscal sponsorship arrangements in a contractual agreement.