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FISCAL SPONSORSHIP

Fiscal sponsorship is a legal arrangement that allows a registered business or non-registered initiative without a 501(c)(3) tax-exempt status (“Project”) to operate under the umbrella of an existing 501(c)(3) tax-exempt nonprofit organization (“Fiscal Sponsor”). Through this relationship, the Fiscal Sponsor provides financial oversight, management, and administrative support, enabling the Project to receive tax-deductible grants while benefiting from the Fiscal Sponsor’s established tax-exempt status.

How Does Fiscal Sponsorship Work?

A Fiscal Sponsor receives and manages donations and grants, distributing funds to the Project based on the agreed-upon terms. Additionally, the Fiscal Sponsor may provide administrative support such as bookkeeping, compliance, payroll, and tax filings. This arrangement allows the Project to function as a nonprofit without obtaining independent tax-exempt status, benefiting from the Fiscal Sponsor’s legal and tax advantages. The Fiscal Sponsor also ensures proper fund usage and compliance with nonprofit regulations, maintaining oversight to align the Project’s activities with applicable laws and ethical standards.

- A 501(c)(3) nonprofit organization acts as Fiscal Sponsor for a Project.
- The Fiscal Sponsor accepts and manages funds on behalf of the Project.
- The Fiscal Sponsor typically handles financial management, compliance, and legal oversight.
- The Project operates under the Fiscal Sponsor’s tax-exempt umbrella, allowing it to receive donations and grants.
- A formal agreement outlines responsibilities, reporting, and terms.

What Are the Benefits of Fiscal Sponsorship?

The primary benefit of fiscal sponsorship for the Project is the ability to solicit grants and donations without building a tax-exempt entity to support the Project. It allows access to tax-deductible funding, reduces the administrative burden, and can help establish credibility with potential donors.





- **Access to Tax-Deductible Funding:** Newly formed nonprofits can have immediate access to funding but don't have tax-exempt status. Additionally, it allows the Project to receive contributions and grants.
- **Reduced Administrative Burden:** The Fiscal Sponsor handles IRS compliance, tax filings, and financial reporting. Some fiscal sponsors provide Human Resource, payroll, and insurance assistance.
- **Credibility:** Being under an established nonprofit can build trust with funders and donors.

Through fiscal sponsorship relationships, the Fiscal Sponsor can also benefit by furthering its own mission, receiving administrative fees, and helping foster other nonprofits. However, while there are benefits to being a fiscal sponsor, Fiscal Sponsor also bears the risk of losing its 501(c)(3) tax-exempt status if it fails to provide adequate oversight and control and the Project engages in prohibited activities like spending funds for non-charitable purposes.

What Are the Types of Fiscal Sponsors?

The two most common models of fiscal sponsorship relationships are Model A ("Comprehensive") and Model C ("Pre-approved Grant Relationship"). Each model offers different levels of financial support, operational support, and oversight. Finding a Fiscal Sponsor that offers the right balance between oversight and administrative support is crucial for the Project's long-term success.

- **Comprehensive (Model A)** – The Fiscal Sponsor fully integrates the Project as a program under the umbrella of the Fiscal Sponsor. Any employees and volunteers of the Project become the Fiscal Sponsor's employees and volunteers. The Project benefits from access to the Fiscal Sponsor's administrative infrastructure (accounting, HR, etc.), which allows the Project to focus on impact and fundraising. The Fiscal Sponsor maintains final decision-making authority over the operations, including having legal and financial control, and assumes full legal and financial liability for the Project's actions. Since the Project is part of the Fiscal Sponsor, the Project's assets belong to the Fiscal Sponsor and could be negatively impacted if the Fiscal Sponsor faces financial difficulties. Additionally, this model comes with higher fees (generally 10-15% of donations), in exchange for extra administrative support.

Example: A community garden project becomes the "Urban Agriculture Program" under the Green Future Foundation (fiscal sponsor). Under this arrangement, the community garden project can focus on developing the garden and fundraising, while Green Future Foundation handles the administrative responsibilities. If Green Future Foundation is unhappy with the Urban Agriculture Program's direction, then its board has the power to make changes as it sees fit.





- Example: Arts for All Foundation (fiscal sponsor) accepts donations for Creative Commons Collective's (project) art therapy program, then formally grants the funds to the project, which operates its programming independently. Creative Commons Collective provides Arts for All Foundation with an expense report quarterly showing that the funds were spent for the agreed-upon charitable purposes.

When choosing between fiscal sponsors, it is important to consider mission alignment, fee structure, and administrative support to ensure a successful partnership. By carefully evaluating these factors, the Project can choose the Fiscal Sponsor that aligns with its mission, provides good value, and offers the right level of support to help the Project succeed.

- **Mission Alignment** – The Project should ensure that the Fiscal Sponsor supports projects in its field (e.g., arts, social justice, education), as fiscal sponsors exercise different levels of control over how the Project’s decision are made and how donations are managed, making it crucial to align the fiscal sponsorship with its mission. Some Fiscal Sponsors maintain significant oversight of the Project’s activities and restrict uses for the funds, while others offer more autonomy in day-to-day operations and spending decisions. Understanding these control dynamics ensures the Fiscal Sponsor’s approach aligns with both your mission and operational needs.
- **Fee Structure** – It is important to assess whether the costs charged by the Fiscal Sponsor are reasonable in relation to the services provided. Typical fees range from 5-15% of revenue, with comprehensive fiscal sponsorship (Model A) usually charging 10-15% for full administrative support, while the lighter-touch Model C charge 4-9% for basic donation processing. Consider comparing these costs with those of other fiscal





sponsors to ensure the Project is receiving fair value. Be aware that some fiscal sponsors charge fees on all revenue while others only on donations. Watch for additional charges like setup fees or credit card processing costs. Additionally, evaluate whether the services included justify the expense and align with the Project's needs and budget.

- **Administrative Support** – The Project should determine whether the Fiscal Sponsor offers fundraising, Human Resources, and compliance assistance. It is also important to evaluate whether the Fiscal Sponsor has a history of supporting successful projects. Additionally, the Project should consider whether the fiscal sponsorship agreement includes provisions for eventually separating and establishing itself as an independent tax-exempt organization.

What Are the Best Practices for Working with a Fiscal Sponsor?

A Fiscal Sponsor can provide valuable support for Projects, allowing them to pursue their mission without managing tax-exempt status. However, there are risks involved, including a loss of independence, burdensome fees, risk of mismanagement, and difficulty ending the fiscal sponsorship relationship. To ensure success, it's essential to establish a clear agreement, maintain transparent communication, and have a plan for growth.

- **Establish a Clear Agreement** – It's essential to draft responsibilities, fees, financial reporting, and exit terms in a written contract. Since the Fiscal Sponsor has legal control over funds, it must understand the spending decision process. The agreement should outline roles and responsibilities of both the Fiscal Sponsor and the Project, fee structures and other administrative costs, financial management and reporting procedures, and more. A well-drafted agreement reduces the risk of conflict and establishes a solid foundation for collaboration.
- **Maintain Transparency and Communication** – Weak financial oversight by the Fiscal Sponsor could ultimately jeopardize the Project's funding sources and reputation. Regularly communicating on finances and the Project's activities helps build trust and accountability. Strong communication with the Fiscal Sponsor helps prevent misunderstandings and ensures smooth operations. Both the Fiscal Sponsor and the Project should commit to regular financial updates, operational updates, timely disclosures of any compliance or legal issue that may arise, and clear documentation of how grant funds are spent.
- **Plan for Growth and Separation** – Because the Fiscal Sponsor maintains legal control over all funds, they have final authority on spending decisions, which the Project's leaders should understand from the outset. The Project may need approval for expenses, which could slow down operations. If the Project anticipates transitioning to an independent, tax-exempt organization, discuss these long-term plans early. Exiting a fiscal sponsorship relationship can be complex, so having a roadmap for asset transfers and operational shifts is essential. Best practices include outlining a transition timeline, discussing asset transfers early on, and creating a separation plan that addresses ongoing program responsibilities.





Conclusion

Fiscal sponsorship is a valuable tool for emerging nonprofit organizations and initiatives, providing them with financial oversight, tax-exempt status, and administrative support without the complexities of forming a separate organization. While it offers significant benefits such as easier fundraising and operational efficiency, it also comes with trade-offs, including fees, reduced financial autonomy, and dependency on the Fiscal Sponsor's policies.

Looking for legal help?

Contact the following legal organizations to see if you qualify for free legal assistance!

Legal Food Hub

legalfoodhub.org

legalfoodhub@clf.org

1-844-LAW-GROW (1-844-529-4769)

Northeastern University Community Business

Clinic <https://law.northeastern.edu/experience/clinics/community-business/>

617-373-6435

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