WHEN PEOPLE CRITIQUE THE NONPROFIT INDUSTRIAL COMPLEX, certain topics are frequently raised: a desire for more support for emergent organizations and leaders, more space for experimentation and risk-taking, less time spent on administrative matters, and more focus on program. While it is definitely not a one-size-fits-all solution, one way to get these things is to consider fiscal sponsorship rather than incorporating into a 501(c)(3).

Fiscal sponsorship means that an organization works with an existing tax-exempt nonprofit to receive and process charitable contributions, use their administrative infrastructure, and ensure financial and legal compliance. In return, the organization pays a fee to the nonprofit and has to adhere to their processes and policies.

An Important Role in the Sector
Most fiscal sponsors see their work as much more than just providing a service or a back office. Asian Americans Advancing Justice–Los Angeles is primarily a legal and civil rights nonprofit, but they also provide fiscal sponsorship for start-up groups that are aligned with their mission. As Patricia Neville, vice president of finance and administration, explained, “We are invested in building the field. It supports our mission to invest in strong partners who are able to eventually stand on their own.”

Melinda Higgs is president & CEO of the Colorado Nonprofit Development Center, a nonprofit dedicated to providing fiscal sponsorship for a broad swath of groups throughout the state. When talking about the role of fiscal sponsors, she said, “We view
it as a partnership. We each get to do what we’re good at and leverage our core competencies. For them, it’s doing the program, making connections in the community, and raising money. For us, it’s providing infrastructure, policies, and capacity-building. It’s a much smarter use of charitable resources.”

Indeed, Stephen Bingham of the Sylvia Bingham Fund said he’s happy to pay fees to his group’s fiscal sponsor, Peace Development Fund (PDF), because, “It’s a remarkable organization that supports lots of very grassroots organizations, which I believe strongly in.”

Movement Strategy Center (MSC) supports fiscal sponsorship through their Innovation Center, which they see as a key strategy to build movement infrastructure. By leveraging their nonprofit status and larger size, they are able to move resources to emergent projects and innovative work. “Philanthropy has habits and assumptions about smaller, grassroots, front line, Black- and Brown-led work. Fiscal sponsorship helps interrupt that inequity,” said Rachel Burrows, managing director.

Karen Mack of LA Commons, a fiscally sponsored project of Community Partners, encouraged fiscal sponsors to play an even greater role in supporting equity in the nonprofit sector. “Fiscal sponsors can think about how to support organizations that serve in areas where there is high need and where access to services is lacking. They can ask themselves, how can those groups get more support?”

**Different Types and Models**

The two most common ways a group obtains fiscal sponsorship is by approaching a nonprofit organization they already have a relationship with or by going to a dedicated fiscal sponsor.

Going to a nonprofit agency you know can be a wise choice if your groups already trust each other and understand each other’s work and organizational cultures. It can be especially beneficial when the sponsoring agency can help make introductions to funders and partners, is well-respected in the field, and is willing to provide guidance and capacity-building. A potential drawback is that this kind of arrangement can often test the strength of the relationship. Common conflicts include: if your project is seen as competing for the same pots of funding; if a funder or donor is confused about which organization they are supporting; if the organization’s policies and processes are not set up to handle the activities of a sponsored project; or if funds aren’t clearly separated in financial reports. Also, the demands on the agency’s time can end up being more than anticipated and not fully covered by the fees, so sometimes groups can sour on playing this role.

A dedicated fiscal sponsor might be a better path if you are looking for a neutral home with clear processes and guidelines. They can often provide a larger variety of services, such as dedicated human resources staffing, reporting for government grants, legal counsel, and workshops and training. Drawbacks include less flexibility in policies and procedures, potentially less expertise in your group’s particular issue area or community, and less tailoring to your group’s needs. Fees are also often higher to help pay for these additional services.

The two most common models of fiscal sponsorship are comprehensive fiscal sponsorship (“Model A”) or as a grantee relationship (“Model C”). The biggest difference is that in Model A your group becomes fully integrated into the fiscal sponsor. In Model C you maintain a separate entity, but the fiscal sponsor accepts tax-deductible contributions on your behalf and then disperses the money back to you as a “grant.”

Lisa Andrews of the Prison Birth Project, fiscally sponsored by Peace Development Fund, reminded us, “Fiscal sponsors are all different and provide different services. With PDF [which is Model C], we have more autonomy and pay a smaller fee, but we get fewer services. Each has its pros and cons.”

To be clear, a group can operate programs and raise money without either a fiscal sponsor or its own nonprofit status. It means, however, that donations it receives are not tax-deductible, which can deter most foundations and government agencies as well as discourage individual donors from making large gifts. It can prevent you from getting access to services and resources that are typically reserved for nonprofits, such as in-kind donation programs. Not being part of a nonprofit structure can also cause community members and potential partners to question whether the organization is self-serving and to doubt its level of stability and accountability. Because it can be extremely challenging to work outside the Nonprofit Industrial Complex, fiscal sponsorship can serve as a helpful compromise.

**Finding a Fiscal Sponsor**

There are several standard items to ask different fiscal sponsors before deciding which one to apply to. These include what kind of services and benefits they offer, their fee structure, their application process, their schedule for cutting checks and generating reports, and authority and decision-making over different areas of management. If your group has some unique or complex circumstances, be sure to also ask how they would handle those.

Another important consideration that groups often overlook is organizational culture. Neville advised, “Look for a fiscal sponsor who is aligned in your way of thinking, your values, and where you want to go.”

This is echoed by Higgs. “Organizational culture match is especially important for social justice groups and those doing advocacy,” she said. “Make sure your fiscal sponsor is going to support...
your efforts and they know how to handle it. Check if they have a stance on advocacy, check what happens if groups under the same fiscal sponsor take different positions on a controversial issue.”

At times when groups haven’t been a good fit with MSC, Burrows pointed to the interplay between expectations and relationship. “Over time we have shifted our focus to supporting groups with whom we have strategic alignment and active partnership in our core work at MSC. We’ve had groups with complicated administrative needs who weren’t that invested in the deeper relationship with us. And we’ve had groups who thought they would get deep strategic partnership from us, but there wasn’t alignment with our current focus. We learned a lot about being clear about expectations at the front end.”

**Pros and Cons**

Groups cite many reasons for why they choose fiscal sponsorship rather than incorporate into their own independent nonprofit. Positives include:

- Get to focus more on program, community building, and fundraising;
- Accounting, financial reporting, insurance, tax reporting, and an annual audit are provided;
- Processes and structures already in place for human resources, such as hiring, payroll, benefits, and background checks;
- Helps ensure you are in legal and financial compliance;
- Can be easier to recruit board members because they have fewer responsibilities;
- Funders have more confidence in your group’s ability to manage funds;
- Access to expert advice, guidance and support;
- Access to training, workshops capacity-building;
- Access to a peer group of organizations; and,
- Possible access to additional services such as shared office space, product discounts, and marketing or communications.

Fiscal sponsorship can be a great fit for organizations that are just starting out and unfamiliar with running a nonprofit. Andrews shared, “When we started 10 years ago, I didn’t know how to raise funds for a nonprofit or any of the regulations around that. It was helpful to have access to a system to track donations when I didn’t know at the time what a donor database was. We were still figuring out how to run our program and we didn’t have an experienced board. It was great to have a fiscal sponsor.” Although they now have the expertise and experience, she appreciates the “creativity and naivete” they were able to bring at the beginning because of fiscal sponsorship.

In addition to administrative infrastructure, Aziza Hasan, executive director of NewGround: A Muslim-Jewish Partnership for Change, a fiscally sponsored project of Community Partners, pointed to another key benefit. “Anytime I have a question, I have an expert I can call. It’s great to know there’s someone who has a vested interest in my success and who knows what’s compliant with the law.”

Although administrative infrastructure may feel boring to some, Higgs reminded us, “Effective organizations need to have their house in order. Groups are more likely to close because of problems here, not because of problems with programming.”

Challenges of fiscal sponsorship include:

- Little control over decisions such as when checks get issued, what your financial reports look like, or which insurance provider you can use;
- Can be difficult to do things or get things last minute or on your preferred schedule;
- May be a barrier to building trust with donors if they do not understand what fiscal sponsorship is or are confused by it;
- Any tools or services that require use of the fiscal sponsor’s tax ID or EIN number requires approval from the fiscal sponsor;
- Can be difficult to transition your board of directors into a governance and fundraising board if they see themselves as just an advisory board;
- Required to follow laws or organizational policies—like background checks for people working with vulnerable populations and not paying people under the table—rather than hoping to “fly under the radar”; and
- Can be confusing to understand the different models and time-consuming to find a fiscal sponsor that best fits your needs.

Another consideration is timing, which can be both positive and negative. These days, incorporating a small nonprofit can actually be faster than getting set up with a fiscal sponsor. A few years ago, it could take almost two years to get IRS approval to establish your own nonprofit and groups often retained a lawyer to get through the process. Since then, under political pressure, the IRS changed its guidelines and released the Form 1023-EZ for organizations with annual revenue under $50,000, which has a quick turn-around, sometimes as fast as six weeks. But this can sometimes lead to people making rash decisions. Said Higgs, “IRS expediency can sometimes win out over the extensive application to become a fiscally sponsored project here, but groups realize it’s helpful to go through the process.” Groups often say that the application process helps crystallize their vision for their program and clarify what kind of supports they need.
**Fundraising as a Fiscally Sponsored Project**
Fundraising is the reason that many groups seek a fiscal sponsor to begin with—they need a tax-exempt entity to accept their donations. Fiscal sponsors are responsible for processing the donations you receive, sending gift acknowledgement letters when needed for tax purposes to donors, and providing you with financial reports at regular intervals. For grants, fiscal sponsors sign the grant agreement and are responsible for ensuring the funds will be used for the intended purposes and that proper reporting is submitted on time. Not all fiscal sponsors have the capacity to handle government grants, so make sure to ask about this if government funding is part of your business plan.

It’s a common misconception that fiscal sponsors help groups raise money. Raising money—creating a fundraising plan, identifying prospects, carrying out various strategies, making the ask, maintaining relationships with donors—is the responsibility of the group. Some fiscal sponsors may help introduce you to funders and donors or invite you to be part of collaborative funding opportunities, they might provide guidance and advice such as reviewing appeal letters, or they might host workshops or trainings. But their main fundraising role is to provide you with the legitimacy and stability that funders and donors look for. As different fiscal sponsors provide different services, it’s important to be clear about what kind of fundraising support your group is looking for and then to find a fiscal sponsor who can meet those needs.

When asked to share challenges they’ve experienced while fundraising as a fiscally sponsored project, most groups had few complaints, but there are a few things to watch out for. If you’re looking at a particular fiscal sponsor, it’s a good idea to reach out to groups who are already sponsored by them to learn more about their fundraising experiences.

One thing Bingham recommended paying attention to is if your fiscal sponsor also raises money from individual donors. As some of the donors to his project also give to PDF, he worries that people get confused about which appeal to respond to and might not consistently remember to note the name of his project on their contribution slips.

Andrews mentioned that one of their challenges early on was explaining fiscal sponsorship to fundraising volunteers and to their donors. “When we were a new organization getting started, I was already nervous having to ask for money,” she explains. “And then to have to also say ‘When you write your check, it’s not going to us, it’s going to this other organization. I swear we aren’t stealing your money!’ was hard.”

Although the vast majority of her donors understand, occasional confusion from donors is also experienced by Hasan. “When we have a big event, I usually have four or five people who buy a ticket who end up contesting the credit card charge because they don’t recognize the name, even though we tell them,” she shared. “We have to call them and explain, and they still sometimes reverse the charge.”

Online giving platforms can also present some challenges, such as not being able to use Amazon Smile because they only allow one tax ID per recipient. One executive director mentioned being frustrated at having to use the online donation system chosen by the fiscal sponsor rather than being able to choose for themselves.

While a lot of work has been done to help funders understand fiscal sponsorship and be supportive of it, some foundations and government agencies do not provide grants for fiscally sponsored projects or will only provide one grant per tax ID. Mack mentioned a few funders that would be a good fit for her group that have made it very challenging for her to apply. “I’d like to say to them that there’s often an inverse relationship between institutionalization and connection to the community and their needs,” said Mack. “There’s programming doing a good job of serving needs and sometimes that programming is not formalized.”

**Whether and When to Incorporate**
For most fiscally sponsored groups, the idea of eventually incorporating into their own nonprofit is always in the air. Sometimes it’s part of their desired trajectory and sometimes funders, donors, or board members pressure them because they see it as a sign of organizational maturity. “Staying in the comfort zone of fiscal sponsorship can keep people from learning the nitty-gritty of running a successful organization,” said Neville.

Most groups point to benchmarks around funding and board development that they would need to first meet. Mack acknowledged, “I would need to be able to afford to hire someone in a management position and have a board who is able to look at organizational sustainability and take on fiduciary responsibilities.” This is echoed by Andrews. “We’d want to make sure we have a solid board, are raising a certain amount of money, and have a good donor relations flow in place.”

For Hasan, her benchmark is when her group reaches a $1 million dollar budget. “That’s when the amount we pay our fiscal sponsor (about 10 percent of revenue) would be enough to consider bringing the services they provide in-house or to hire a consulting firm,” she reasoned.

But not all fiscal sponsors see sponsorship as time-limited, and not all groups see incorporation as part of their plan. Bingham is pleased to have his group continue indefinitely as a fiscally sponsored project. “I’ve been on boards of different nonprofits. I know the drill around boards, minutes, filings, 990s, and I just don’t want to deal with it,” he explained.
The most important thing when choosing an organizational structure is to go with the one that makes the most sense for your particular group. Burrows advised, “Make sure form follows function. Don’t limit yourself to just whatever you’re familiar with. Know the horizon of that form and don’t let it trap you if it no longer serves your vision or strategy.”

Conclusion
Fiscal sponsorship can always be an option when looking at the next phase of your organization, whether you’re going from a pilot to an expansion or a start-up to a sustainable organization, whether you’re revving up or winding down or changing structures altogether. Said Higgs, “Fiscal sponsorship is such a great resource. Anytime someone is starting a new project, it should be a consideration. For many groups, it’s a great fit.”

Priscilla Hung is the deputy director of Move to End Violence, a movement-building initiative of the NoVo Foundation. She is a former program director at Community Partners and a fan of fiscal sponsorship. She also sits on the editorial board of the Journal.

ADDITIONAL RESOURCES

To find a fiscal sponsor in your region: fiscalsponsordirectory.org

For steps on finding the right fiscal sponsor for your group: grantspace.org/blog/find-a-fiscal-sponsor-that-fits

If your organization is interested in becoming a fiscal sponsor or your group is trying to figure out how to vet potential fiscal sponsors, the National Network of Fiscal Sponsors has helpful guidelines: fiscalsponsors.org

For the nitty-gritty and legalities of fiscal sponsorship and different models, Attorney Greg Colvin frequently writes about it: fiscalsponsorship.com as does the NEO Law Group: nonprofitlawblog.com/category/fiscal-sponsorship

Read a great case study about how a fiscally sponsored organization raises money: “No Staff? No 501c3 Status? No Problem! By members of ACT UP Philadelphia” (GFJ v30 n6)

For a compelling case for fiscal sponsorship: rainiervalleycorps.org/2017/06/stigma-fiscal-sponsorship-needs-end/