
# How fiscal sponsorships work

# for established and fledgling charities

A fiscal sponsorship occurs when an established charity provides a kind of legal and financial umbrella to a charitable project that lacks 501(c)(3) status. This type of arrangement can benefit both groups. But before agreeing to be a sponsor, be sure you understand how these arrangements work and the risks involved.

## Mutually beneficial

In a fiscal sponsorship, the 501(c)(3) sponsor is legally responsible for the charitable project. It acts as employer to the project's paid workers and manages all of its funds. Donations and grants are made directly to the fiscal sponsor, thus qualifying their donors for a charitable deduction (if the donors itemize deductions and other applicable requirements are met).

It's easy to see why small charitable projects seek fiscal sponsorships. Such relationships can provide much-needed infrastructure and fiscal management to a project. By making it possible to receive charitable donations, sponsorships can make more funds available. Plus, associating with an established charity can enhance the project's credibility.

These arrangements benefit sponsors, too. A sponsorship can provide greater exposure for the 501(c)(3) organization, possibly resulting in new donors for established programs. When you choose a project that shares your mission and basic objectives, it can enhance your own program offerings with minimal monetary outlay. Although a sponsorship isn't intended to be a source of income for the sponsor, nonprofits often charge a nominal fee to offset their overhead costs.

## Prime candidates

Projects that can best benefit from a fiscal sponsorship generally include those that are:

- Too small to have staff or much infrastructure,
- Temporary or periodic,
- Waiting to secure 501(c)(3) status, but that want to operate sooner, or
- Based outside the United States.

When you find a good candidate, make sure you thoroughly discuss each partner's expectations and roles. Mutually agree on start and termination dates and decide which group will make decisions about what. Because nothing causes conflict like money issues, be sure to decide on the sponsorship charge (up to 10% is typical), how disbursements will be handled and who will handle audit and reporting requirements.

Both parties must understand the key responsibilities in the relationship. First and foremost, the fiscal sponsor is responsible because the project and its sponsoring nonprofit are legally one entity.

## Consult advisors

Keep in mind that any fiscal sponsorship involves some risk to your organization's finances and reputation. So it's important to discuss your plans with legal and financial advisors before entering into one of these arrangements. Contact us for more information.