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What Is Fiscal Sponsorship?

Fiscal sponsorship is widespread, but confusion remains about what it is. This is no surprise, because the term has no single legal definition, and people use it in a wide variety of situations, correctly and sometimes incorrectly.

Typically, a 501(c)(3) charity collaborates with another party so deductible contributions can be received and used to support a charitable project that is the brainchild of the person or entity that sought fiscal sponsorship, as in Models A and C. (For an in-depth description of models, see [Greg Colvin's Fiscal Sponsorship: 6 Ways to Do It Right.](#))

Model A. Where the individual who approaches the sponsor becomes the sponsor's employee or volunteer, we call this "Model A," "direct" or "comprehensive" fiscal sponsorship. The project becomes the sponsor's, so the sponsor has complete authority to run the project and spend funds for its purposes.

Model C. Where the individual or entity who approaches the sponsor becomes a grantee of the sponsor (but the project activity is not absorbed into the sponsor), we call this "Model C," "indirect" or "re-grant" fiscal sponsorship. The sponsor receives donations for the project's purposes, *retains discretion and control over the funds*, grants them for project purposes, and requires reports to confirm that funds were spent properly.

In Models A and C, the fiscal sponsor always *has its own charitable purposes*—helping the community, or the arts, for example. The sponsor receives donations for those charitable purposes, further restricted for the project's objectives, and then exercises its discretion, control, and judgment to spend the funds—directly or re-granting—on the project's purposes. *The fiscal sponsor is not just an administrator who receives money, issues receipts and checks, and handles paperwork.* Projects often see the centralized "back office" as fiscal sponsorship's advantage, and they're right—fiscal sponsors spare projects administrative grunt work. But from a *tax and legal* perspective, in these models, the heart of fiscal sponsorship (and the reason contributions are deductible) is that the sponsor has its *own* charitable purposes, which it furthers by operating what becomes its own charitable project (Model A) or making grants to further its purposes (Model C). The sponsor is in the driver's seat.

Still with me?

Model F. There is a purely administrative service where the sponsor's ability to receive

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AUTHOR



Stephanie L. Petit
Principal

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Nonprofit Law Matters looks at legal issues in the nonprofit and tax-exempt organizations world. Written by the attorneys and paralegals of Adler & Colvin, it provides updates and analysis regarding philanthropy, charity, and other exempt organization issues.

EDITORS



Stephanie L. Petit
Principal



Eric K. Gorovitz
Principal

deductible contributions isn't necessary. Under "Model F," or "technical assistance," a nonprofit sponsor (or for-profit!) could keep track of a bank account belonging to a 501(c)(3) charity recognized by the IRS, write checks as the charity *directs*, and handle back office work. Here, the sponsor lacks any discretion or control over the spending of funds. This is sometimes called "fiscal sponsorship" (and sometimes not). In technical assistance, the assisted charity is in the driver's seat.

If you're still with me, you're a fiscal sponsorship nerd.

Models D and E. There are at least two other relationships sometimes called "fiscal sponsorship," though they predate the term, are precisely legally defined, and are usually engaged in by entities who do not see themselves as fiscal sponsors. These are **group exemptions** and **supporting organizations**. In both, the tax status of one entity depends on another's. In that way, they resemble Models A and C (where deductibility depends on tax status of sponsor). But the *administration* inherent to Models A, C, and F is unnecessary to group exemptions or supporting organizations (though the sponsor *could* provide some back office support). Group exemptions and supporting organizations existed before fiscal sponsorship's rise as a field, and some would argue they aren't fiscal sponsorship at all!

Even more arrangements called "fiscal sponsorship" exist—that's for another day.