

## **What is Fiscal Sponsorship? A Primer**

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### **Abstract**

This article provides a brief overview of fiscal sponsorship, defining the field, its key models, and mechanisms. This primer is provided to accompany the series offered by Social Impact Commons on aspects of fiscal sponsorship.

### **Introduction**

Fiscal sponsorship represents strategic and intentional relationships, whereby a program that an exempt organization carries out receives and expends funds to support a mission-aligned ‘project’ while retaining discretion and control over the funds. Unlike a traditional nonprofit program, fiscal sponsorship relationships are typically memorialized in a legal agreement that defines roles and responsibilities and preserves the independence of public identity, key decision-making, and the right to exit the relationship. That’s the technical version.

***Sidebar on lingo: Fiscal sponsorship or fiscal hosting is a term or art and is not legally determinate. Fiscal sponsorship is not a distinctly regulated practice; thus, all sponsors comply with the same rules that other nonprofits are accountable for. In the sponsorship world, “fiscal sponsor” is not the same as “fiscal agent”, as fiscal agent suggests responsibilities are very different and not compliant with charitable law. The term “project” is used for the sponsored nonprofit activity—the equivalent to a stand-alone nonprofit initiative. Projects don’t have to have their own legal formation. Still, often they have a for-profit associated with them, like an LLC or S-Corp, and most frequently, the project is just a person (or group) with an idea, and they’re partnering with the sponsor as their nonprofit backbone. The generic title “project director” refers to the person authorized to instruct the sponsor on behalf of the project. “Model” refers to the type of fiscal sponsorship relationship and the depth of sharing the project and fiscal sponsor choose to engage in.***

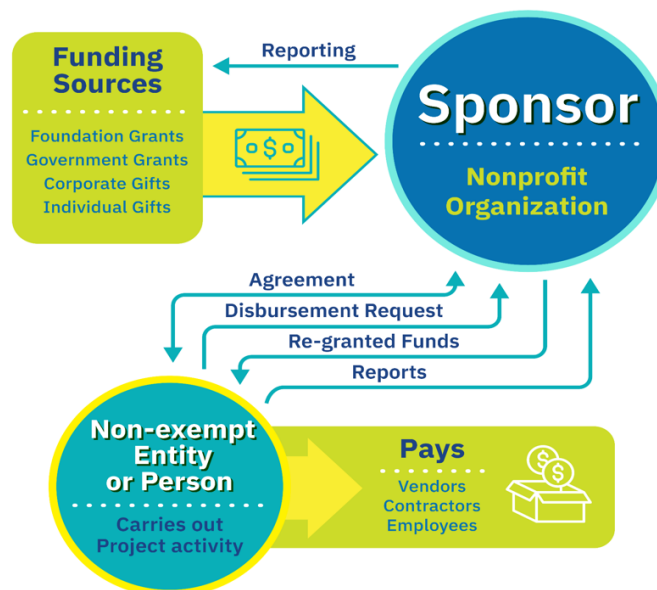
The other way to describe fiscal sponsorship is as a collection of internal agreements and management practices that allow one nonprofit (the sponsor) to share its infrastructure with multiple distinct and semi-independent charitable activities or organizations (the projects). Infrastructure, in this case, can range from just sharing tax-exempt status, allowing a non-exempt person or entity to access funding to do charitable work, to sharing all of the essential elements of an operating nonprofit: corporate home, tax status, employer of record, management systems and staff, insurances, charitable compliance, etc. The latter approach can incubate new nonprofit initiatives, house temporary projects, and even provide a forever home to nonprofit programs as they scale—an alternative to stand-alone formation. Fiscal sponsorship is not just for smaller

projects. Larger fiscal sponsors are regularly home to projects upwards of \$10 million to \$50 million.

The range of infrastructure sharing described above is represented by the two most prevalent “models” of the six or so that are recognized by the field: Pre-approved Grant or Model “C” fiscal sponsorship and Comprehensive or Model “A” fiscal sponsorship. The models were classified and given their alphabetical taxonomy by attorney Gregory Colvin in the early 1990s. The latest edition of his book, *Fiscal Sponsorship: Six Ways to Do It Right* (Study Center Press, 2017), remains the authoritative legal text in the field.

The pre-approved Grant Model “C” fiscal sponsorship is sometimes incorrectly referred to as the “passthrough” model. (The IRS prohibits charitable passthroughs.) In this approach, the project is an independent person or taxable entity working on a charitable project or a nonprofit awaiting its federal tax exemption. The project is permitted to raise funds from donors and funders that are *pre-approved* by the sponsor, hence the name. Contributions are received by the sponsor, which then *regrants* the funds through to the project person or entity, usually against advance or reimbursement requests from the project, for end expenditure on the work. There is a Fiscal Sponsorship Agreement between the project and sponsor, and the regrants relationship ensures necessary accountability and oversight of charitable funds. The sponsor retains compliance and administrative responsibility for the charitable funds, for which there is a cost allocation (“fee”) that averages between 4% and 8% of project revenue received.

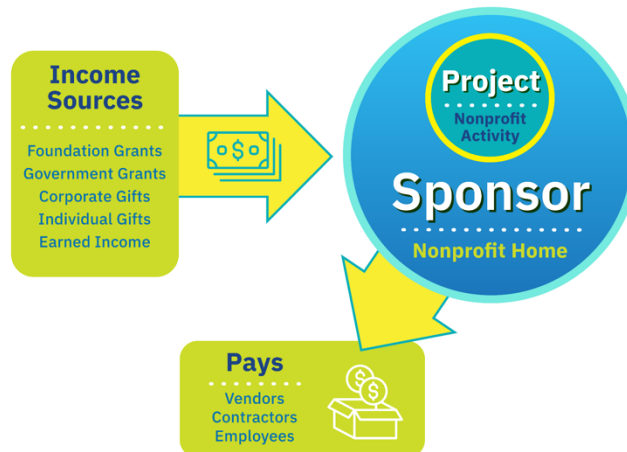
Model “C” is probably the most well-known form of fiscal sponsorship in the US, if not by name, then by form. But it’s more limited in support than its comprehensive cousin, as it is really designed to facilitate access *only* to charitable funds; it doesn’t provide other direct support, leaving much administrative work and liability to the project: bill paying, insurances, bookkeeping, HR, etc.



*Pre-approved Grant Model “C” Fiscal Sponsorship Graphic: Social Impact Commons*

In contrast, Comprehensive Model “A” fiscal sponsorship—true to its name—offers the support of a complete nonprofit backbone: all bookkeeping and accounting, employer-of-record, HR, legal, charitable compliance, insurances, and often much more—commonized nonprofit management. It does this by making the project essentially the same as an in-house program of the nonprofit, except that the project retains a high degree of independence of identity, decision making, and the right to exit, all enshrined in a Fiscal Sponsorship Agreement. Unlike Model “C”, comprehensive sponsors receive *all* revenue and pay *all* expenses on behalf of the project, which also makes the sponsor the legal signatory to checks and agreements, as well as the employer of record for project staff. Model “A” support costs range from 10% to 15% of revenue, higher than Model “C”, but for a lot more support in exchange.

In this manner, Model “A” sponsors can serve as everything from a temporary incubator to a permanent operating solution for nonprofits to scale and operate, pivot, or even wind down, making this the most transformative model of sponsorship. More and more, Model “A” is being used as a shared infrastructure solution for established nonprofits that bring themselves under comprehensive sponsors to access higher quality administrative support at lower costs. Comparative analysis by Social Impact Commons indicates that comprehensive sponsors can offer all of the back-end support that a stand-alone nonprofit would need but for more than 10% *less in cost*, allowing more funds to be allocated to front-line programs.



*Comprehensive Model “A” Fiscal Sponsorship Graphic: Social Impact Commons*

Fiscal sponsorship as a whole is often included among nonprofits referred to as “intermediaries,” organizations that help move resources, mainly money, from point A to point B. This is only partially accurate. In fact, fiscal sponsors span *two* types of infrastructure. The Pre-approved Grant Model “C” form is *intermediary infrastructure*, as it re-grants money from funders to wholly separate people or entities. Comprehensive Model “A” fiscal sponsorship is *commons*

*infrastructure*. Instead of being a temporary waystation for resources, it is a common management platform that stewards all of the charitable resources for the project. A management commons is a resource (in this case, nonprofit corporate and management infrastructure) that is shared by multiple people or activities.

Building on this way of viewing Model “A” sponsorship, Social Impact Commons has defined a next-generation version of the comprehensive form, one that operates as described above, but centers strong governance representation on the sponsor’s board by project leaders and intentional community building among the community of projects, and truly commons (intentionally shares) management function. This allows the comprehensive form to engage in deeper equity-based practices, sharing power with sponsored projects and approaching other solidarity economy solutions like cooperatives and collectives.

The fiscal sponsorship field has come a long way since its appearance in the late 1950s. Growing in part out of the Civil Rights Movement as a solution for empowering and capacitating BIPOC communities, the field evolved organically until the 1970s. Despite always having been a legally compliant nonprofit practice, the field began to move toward more formal legitimization, which manifested in affirmative IRS rulings and culminated in Colvin’s work to catalogue the legal forms in the 1990s. But true field building and documentation has been slow in coming for fiscal sponsorship. In 2004, the National Network of Fiscal Sponsors (NNFS) was founded, which convenes the field’s annual conference. In 2020, Social Impact Commons was founded as the first capacity and field-building organization for the community, offering direct advisory services, research, and advocacy.

Today, the discernable fiscal sponsor ecosystem (there is no public data set identifying fiscal sponsors) numbers roughly 600, but we estimate that there may be upwards of 5,000 fiscal sponsors active in the US alone and a lot more spread across the globe. Impact Commons, with NNFS, completed the first significant fiscal sponsorship field scan in 2023, which revealed a rapidly growing, diversifying, and specializing ecosystem of fiscal sponsors. This scan of just about 15% of the discernable population surfaced a remarkable scope of impact, including over 12,000 charitable projects; more than \$2.6 billion in sponsored project funds; \$575 million in government funding to projects; 18,000 staff members employed and contractors managed; and almost \$700 million in contributions to individual income (employees and contractors combined).

The 21st century will see the further evolution of fiscal sponsorship as a means to organize and stabilize a vastly fragmented and often under-resourced nonprofit sector and allow us to respond more readily to the accelerating cadence of challenges we face today: social division, climate change, economic disparity, and others. The Age of Fiscal Sponsorship may be upon us.