

## **Fiscal Sponsorship vs. 501(c)(3) Tax-Exempt Status**

Fiscal sponsorship is a great option for smaller nonprofits, particularly when just starting out. A fiscal sponsor is an arrangement between a 501(c)(3) tax-exempt organization, the “sponsor”, and another entity, the “project”. Working with a fiscal sponsor allows organizations to operate very similarly to a tax-exempt organization without holding its own 501(c)(3) status.

### **What are the benefits of fiscal sponsorship?**

- Charitable donations:
  - A fiscal sponsor allows organizations to accept charitable donations without holding 501(c)(3) status itself. Obtaining 501(c)(3) status can be a slow process that can cost an organization money, but through a fiscal sponsorship, organizations can start accepting tax-deductible charitable donations immediately. Donations should be made out to the sponsor, but in support of your project’s purposes.
- Annual tax filings:
  - A 501(c)(3) must file annual Form 990s, state forms, and payroll forms. With a fiscal sponsor, an organization only needs to submit progress reports to the sponsor, and does not have to file any tax records itself. For organizations without resources and connections to file annual taxes independently, a fiscal sponsorship is a good alternative.
- Staffing, payroll, billing:
  - A 501(c)(3) organization must handle its own onboarding of staff, payroll, and billing. This includes paying into unemployment and workers compensation insurance. A fiscal sponsor will handle staffing concerns and payroll, and will pay bills on behalf of the project.
- Insurance, Liability, and Debt:
  - A 501(c)(3) tax-exempt organization is legally liable for project debts and any claims against it. A fiscal sponsor assumes liability for the projects it sponsors, eliminating the need for a sponsored project to take out its own insurance policies.

### **What are the drawbacks of fiscal sponsorship?**

- Control and independence:
  - A sponsored project has less autonomy than a 501(c)(3) tax-exempt organization. A sponsored project will have to adhere to any conditions outlined in its fiscal sponsorship agreement. A sponsored project makes decisions through an advisory committee, which operates under the guidance of the sponsor’s board of directors.

### **Where do I find a fiscal sponsor?**

- Nonprofits can explore fiscal sponsors through the [National Fiscal Sponsor Directory](#), or work with a [nonprofit resource provider](#) to get guidance on which fiscal sponsor makes the most sense for your organization.

### **What if I change my mind?**

- A fiscal sponsorship agreement can always be terminated, and fiscally sponsored projects can always obtain 501(c)(3) tax-exempt status independent of its sponsor when it has the resources and capacity to do so.

*For more information on fiscal sponsorship, please refer to [Pro Bono Partnership’s Introduction to Fiscal Sponsorships](#).*