

Center for Transformative Action FAQs About Fiscal Sponsorship

(from: <http://centerfortransformativeaction.org/faqs-about-fiscal-sponsorship.html>)

What is Fiscal Sponsorship?

Fiscal sponsorship is a formal affiliation undertaken between a non-profit corporation with 501(c)(3) status and another organization or individual in order to enable the latter to receive the benefits of tax exempt status. There are several forms which fiscal sponsorship can take, but in every case, the fiscal sponsor takes responsibility for external parties that the funding will be utilized for tax exempt, charitable purposes as defined in the internal revenue code. The form used by CTA is that of sponsoring direct projects, in which the charitable activities of the sponsored organization become projects of CTA. Projects of CTA are operating units of the Center and we call them "Project Partners of the Center for Transformative Action."

Will a fiscal sponsor provide funding for the project?

Fiscal sponsorship is not a funding relationship. Most fiscal sponsors require that the project organization raise its own funds, and in addition the sponsor charges a fee to cover costs related to the fiscal sponsorship. Project Partners of CTA are required to be self-funded and the Center charges a fee to cover shared administrative costs; the fee is a percentage of the expenses (not income) incurred by the project.

Why seek a fiscal sponsor?

Many foundations and grantors require recipients of their funds to be 501(c)(3) corporations. In addition, many private donors wish to claim their charitable donations as tax deductible, which requires that the donation be given to a 501(c)(3) organization. Many fiscal sponsors provide no services beyond the legal requirements of sustaining their status as 501(c)(3) organizations. For projects, that legal requirement means that the 501(c)(3) organization takes legal responsibility for the charitable qualification of the activities of the project and bears the risks of the projects solvency.

What is a 501(c)(3) organization?

The Internal Revenue Code contains specific criteria for which organizations qualify to receive tax-exempt status as 501(c)(3) status. In order to attain this status, the organizations must be chartered non-profit corporations.

How can a project get a fiscal sponsor?

Fiscal sponsorship can be obtained by finding and contacting an agency that is willing to be a fiscal sponsor. Fiscal sponsors vary in the process by which they accept new projects.

How can I become a CTA Project Partner and how long does the process take?

Please read our Project Partner eligibility guidelines at: <http://centerfortransformativeaction.org/project-partner-eligibility.html>

What mission must my project have?

Many fiscal sponsors have generally stated rather than specific charitable missions and accept projects across a broad range of social change activities. CTA is chartered as an educational organization and requires that its Project Partners undertake activities that have a transformative focus that falls within the scope of CTA's mission. Please see our Project Partner eligibility guidelines from the link above.

What relationship does CTA establish with its projects?

CTA accepts Project Partners as affiliates. The Project Partner pursues its mission as a part of CTA through an affiliation agreement that specifies the relationship as such that the projects activities are an operating unit of CTA. The Project Partner relationship does not form an independent legal organization for your project.

What obligations come with being a sponsored project?

Upon agreeing to be a Project Partner of CTA, you would accept the terms of the CTA affiliation agreement. As part of that agreement, you accept responsibility to undertake activities only in accordance with the express purposes stated in your project proposal as approved by our Board of Directors. Any substantive changes in project activity or purpose will be subject to re-evaluation. In addition, you would be agreeing to undertake your project as a unit within CTA, providing CTA with fiscal oversight and program review.

Who bears legal responsibility for my project's activities?

CTA bears full financial and legal liability for the activities of its projects to the extent of liability as defined by law. The funding raised for project activities will be funds raised under the auspices of CTA for the benefit of the project.

Do I have to give up control over the project when I receive fiscal sponsorship?

As a fiscal sponsor, CTA does not direct the programming of its Project Partners. They are independently managed to achieve the missions under which they were accepted as projects. The oversight of project programs and finances is done under the guidance of an advisory board of volunteers. Project Partners provide periodic reports of program activities to CTA's Directors, who ensure that the programming is in keeping with the mission approved by CTA.

Do the funds I raise for my project belong to me or to CTA?

All funds received and raised by you for the express purpose of operating the project are the property of CTA. This is because tax-deductible donations must be given to a 501(c)(3) organization. Funds raised for the project are the property of the Project Partner only as an operating unit of CTA. The disbursement of funds to cover expenses of the project is subject to the approval and review of the CTA Board of Directors or their designee. Under the affiliation agreement, CTA is obligated to restrict those funds to Project Partner with the exception of administrative expense fees used to cover shared costs for the projects and programs of CTA.

If the fiscal sponsor is the recipient of donations and grants, how does the project maintain control of its funding?

While a project is not a separate legal entity, it is distinguished by its name and purpose. Funding received for our projects is restricted for the purpose of engaging in the activities of the project as stated in its mission as approved by the CTA Board of Directors. Project funding received from grants is restricted by the conditions under which the grant was made.

If I receive 501(c)(3) status do I have to sever my project's relationship with CTA?

No. Even after becoming a separate organization, your project can retain the services of our organization in order to continue the benefits of fiscal sponsorship. Once you attain your own status as a 501(c)(3) corporation you would have greater independence to pursue and manage your mission, but you may continue to operate projects under the sponsorship of CTA.

If I seek a fiscal sponsor do I have to avoid seeking 501(c)(3) certification for my project?

No. In fact, having a fiscal sponsor can help you progress more quickly toward becoming a viable non-profit agency. CTA offers help in working through the process of becoming an independent organization.

Are projects with fiscal sponsors non-profits?

By obtaining a fiscal sponsor, the project can end up with any of several relationships to its non-profit status. Our projects become part of our organization, meaning they are operating units of a non-profit organization. In a strict legal sense, our Project Partners are not separate organizations; they are units of CTA. As the fiscal sponsor, CTA is the entity with 501(c)(3) status, and projects have that status as a direct project, but only because the project is not recognized by the law as a separate legal entity. CTA remains the legal entity with

non-profit status. To make use of this status, our Project Partners are required to announce their status as "a Project Partner of the Center for Transformative Action" in all their literature and publications.

What are incubation services? How do they differ from fiscal sponsorship?

If your project aims either to become a large-scale program or a separate entity, it will need to undertake efforts that extend beyond simply operating an effective program. The operation of the project will also have to effectively develop organizational capacity. It is for the latter purpose that incubation services are targeted.