



# Fiscal Sponsorship & Multi-entity Structures

*What are they, and how do we know when to use them?*

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# Why build multi-entity structures?

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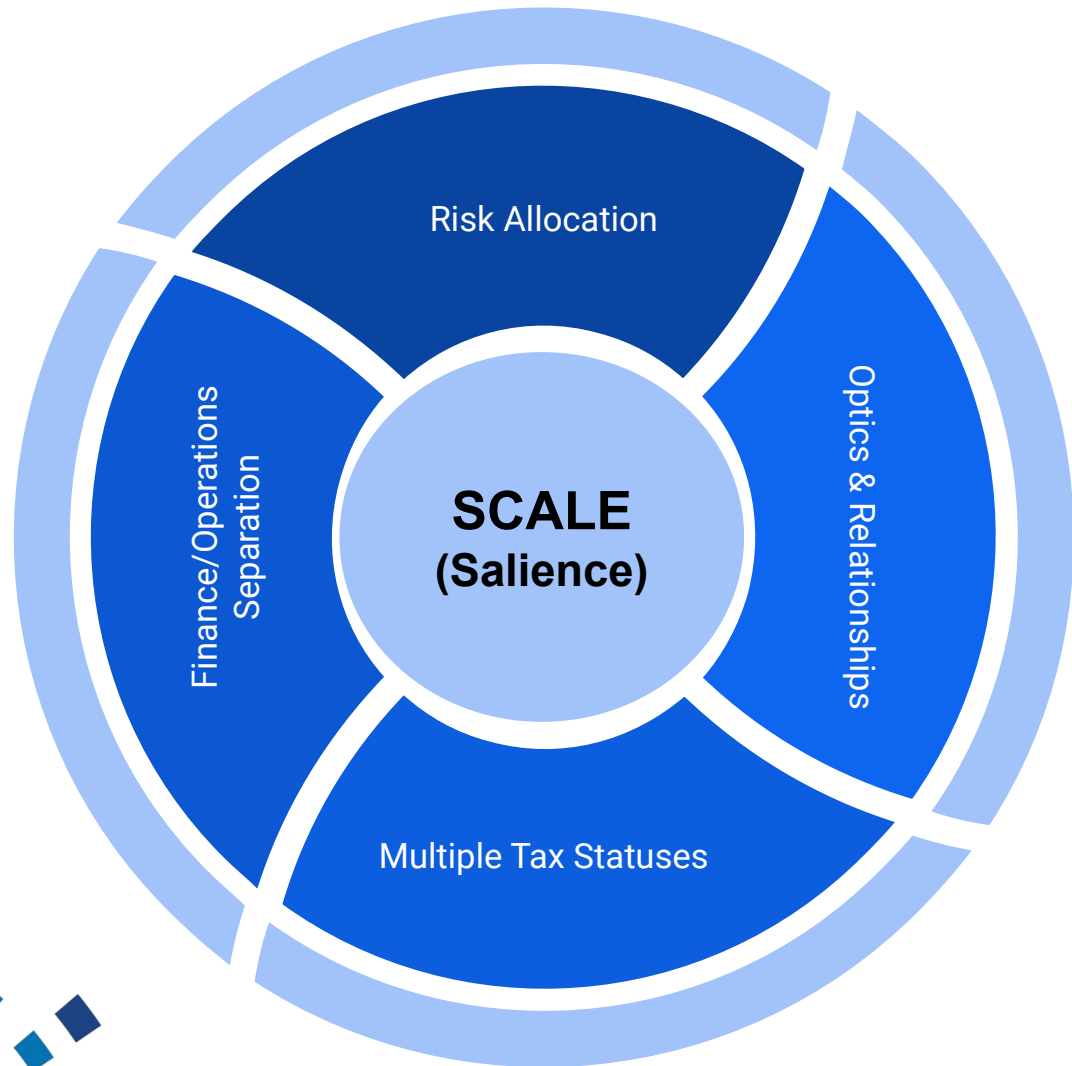
*Fiscal sponsors can use separate legal formations to...*

- **Allocate Risk** - distributing financial, legal, compliance and other risk centers.
- **Separate Financial/Operational Processes** - Creating different financial accounts, employment relationships, banking, HR policies, financial policies.
- **Manage Multiple Tax/Compliance Statuses** - Managing funds subject to different tax exemptions, such as for-profit, (c)(4), (c)(5), (c)(13), etc.
- **Manage Optics & Relationships** - Permitting different donor/vendor transaction partners, separate public naming and identity.



# Why build multi-entity structures?

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The decision to introduce multiple entities into your fiscal sponsorship practice is not linear or even scientific.

It often involves one or more of these considerations to differing degrees of saliency.

In all cases, there will be **added direct and indirect costs** in managing with multiple entities, so the **gains have to outweigh the costs in the end.**

## Consideration Areas

Risk Allocation	Finance/Ops Separation	Multiple Tax Statuses	Optics/Relationships
Activities with high risk profile	Funds/operations segregation	501(c)(4) Social Welfare Org	Separate transacting name
Activities that court litigation	Portability/ease of spin out	501(c)(5) Agricultural & Labor Org	Separation of assets
Major contract obligations	Separate HR policies/benefits	501(c)(13) Cemetery Corp	Separation of ops centers
Special compliance risks	Solving “single-EIN problems”	For-profit (taxable) activities	Separate authorities/control

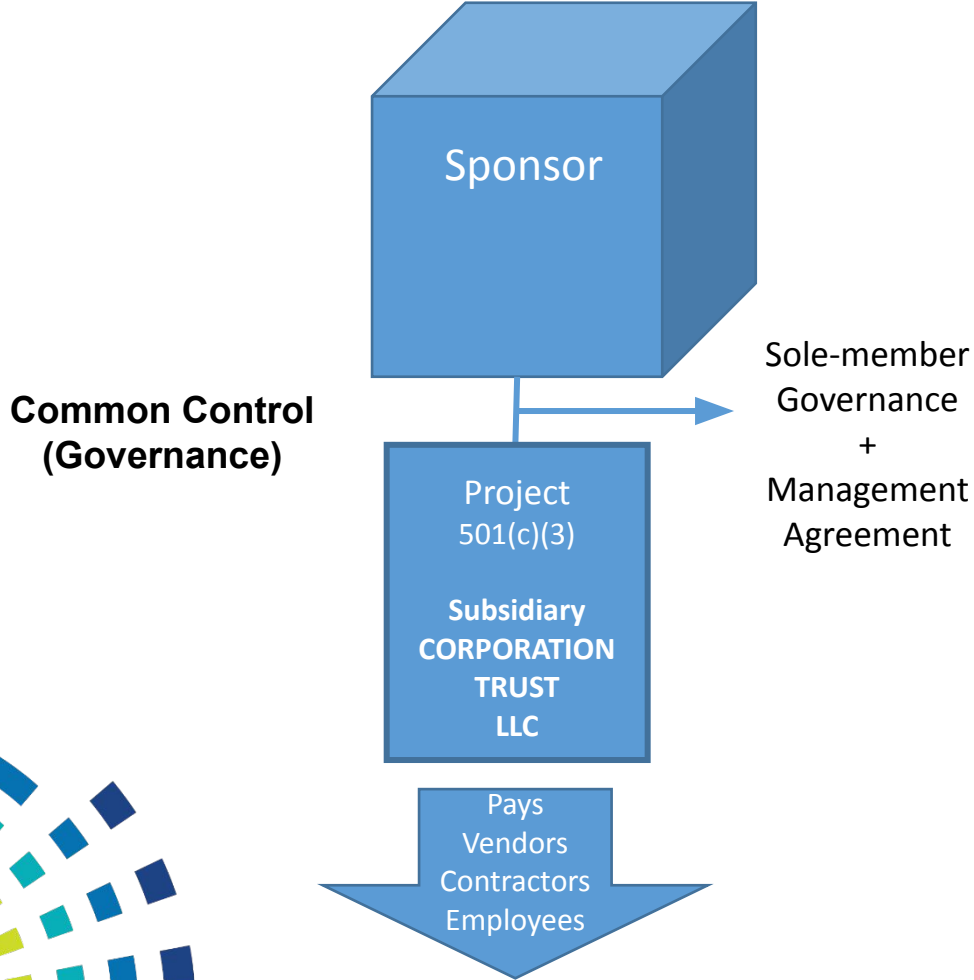


### SCALE (SIZE/SALIENCE) of CONSIDERATION

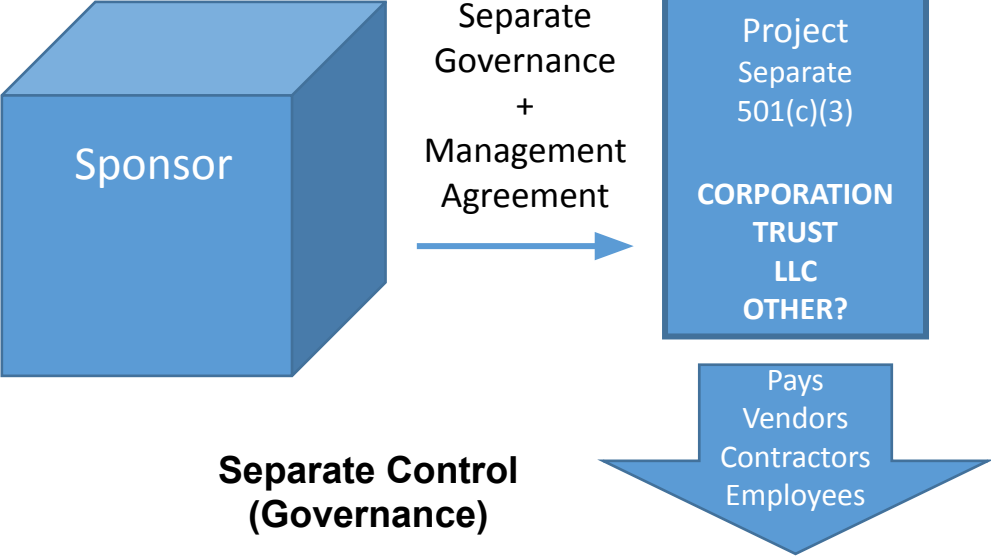
Individually or collectively, informs the “threshold” decision to implement a multi-entity structure.

# Two Basic Kinds of Relationship

## SUBSIDIARY



## AFFILIATE



## Don't forget your own capacity due diligence!

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- Internal capacity assessment and readiness of your team and key partners and vendors to enter into this work with you.
- Clear stance on how equity considerations will influence the choice of which organizations to work with and how to structure the relationship.
- Clear strategy for what kinds of organization cases you want/can take on: i.e., stabilization may be more labor intensive than strategic growth.
- Due diligence, risk assessment, and clear strategic framework for organizing activity under different legal structures.



# Sample Case: Fiscal Sponsors Supporting 501(c)(4) Advocacy

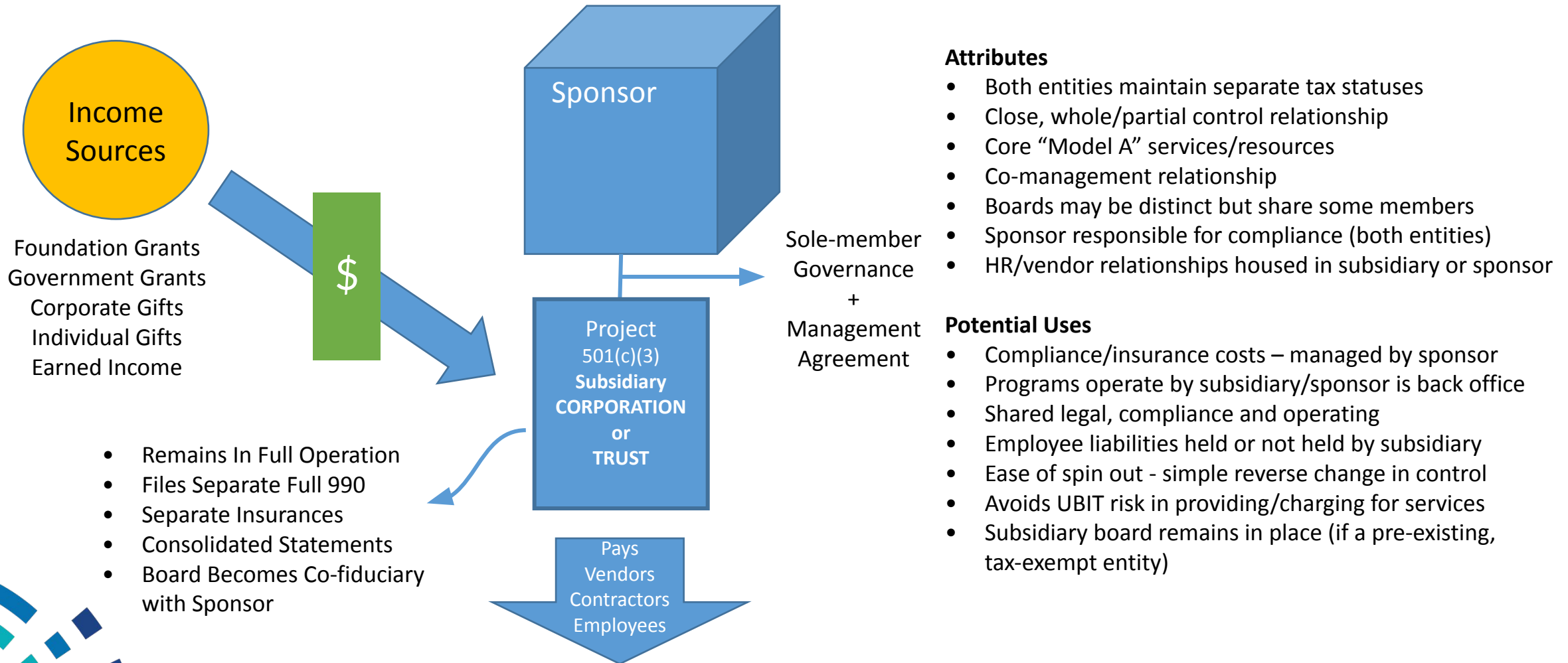
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Risk Allocation	Finance/Ops Separation	Multiple Tax Statuses	Optics/Relationships
<b>Street-level activism/protest</b>	Funds/operations segregation	501(c)(4)	Separate transacting name/identity
<b>Legal activism (litigation)</b>	Separate HR policies/benefits	<b>Will engage in prohibited political activity, per IRC</b>	<b>Separate governance</b>
	<b>Need for special insurances</b>	<b>Activities will exceed safe harbor limit for 501(c)(3)s</b>	Separation of ops centers

Here the combination of high-risk activity, the need for special insurances, the likelihood of exceeding the (c)(3) limits for lobbying, and the need for separate governance for (c)(4) tax status =  
**Separate Affiliate 501(c)(4) Corporation**

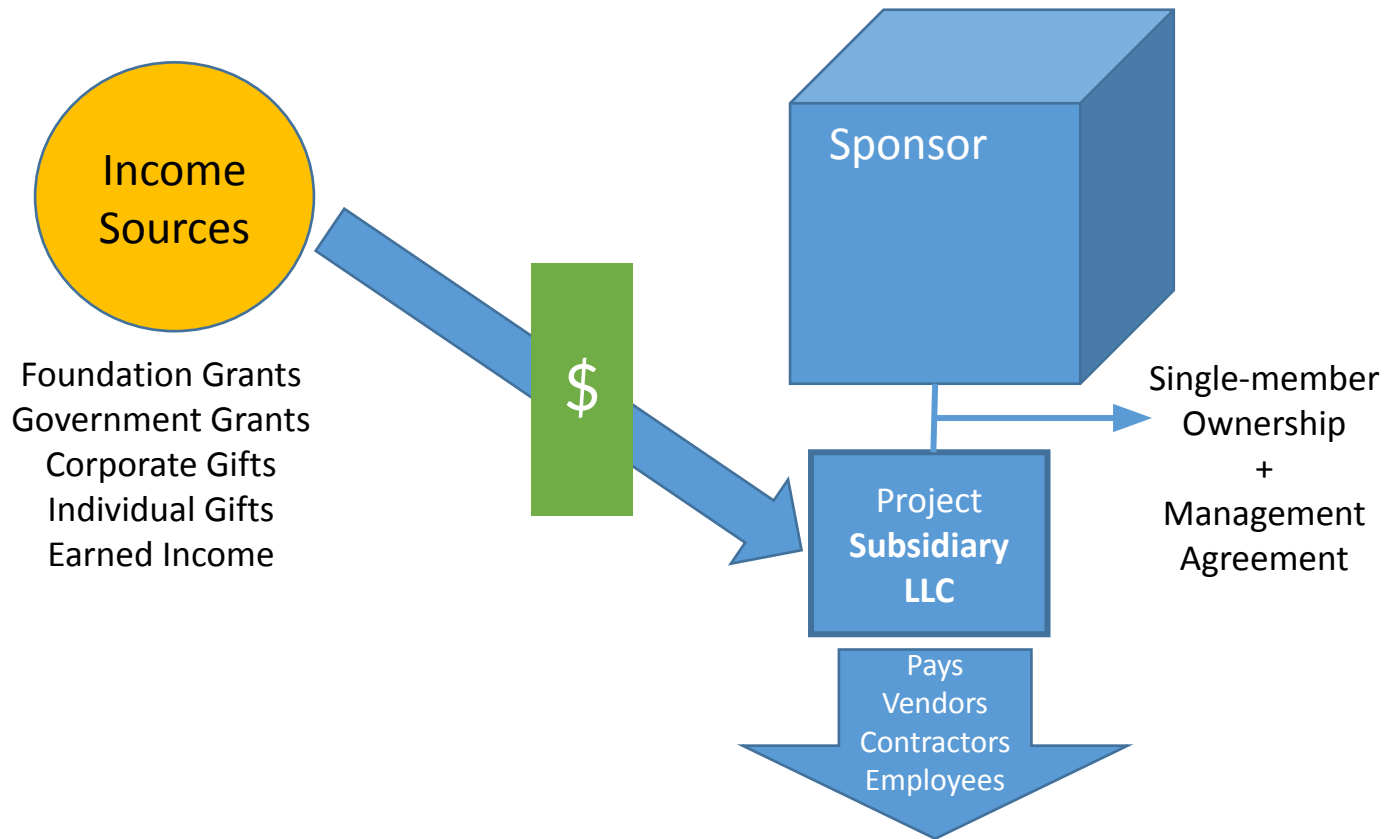


# Sole Member Corporation/Trust Relationship





# Disregarded Entity or Single-member LLC



## Attributes

- Subsidiary establishes tax status from the sponsor
- Close, whole/partial control relationship
- Core "Model A" services/resources
- Co-management relationship
- One board (sponsor)
- Compliance is consolidated
- HR/vendor relationships housed in subsidiary or sponsor

## Potential Uses

- Compliance/insurance costs – managed by sponsor
- Programs operate by subsidiary/sponsor is back office
- Shared legal, compliance and operating
- Employee liabilities held or not held by subsidiary
- Ease of spin out - simple reverse change in control
- Avoids UBIT risk in providing/charging for services
- Subsidiary board remains in place (if a spinning in from a pre-existing, tax-exempt entity)





Asta Petkeviciute, Chief Financial Steward  
[asta@socialimpactcommons.org](mailto:asta@socialimpactcommons.org)  
617 448 9559

Josh Sattely, Chief Legal Steward  
[josh@socialimpactcommons.org](mailto:josh@socialimpactcommons.org)

Thaddeus Squire, Chief Commons Steward  
[thaddeus@socialimpactcommons.org](mailto:thaddeus@socialimpactcommons.org)  
215 760 1634

<http://socialimpactcommons.org>

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