

**Starting Out:  
Comparing a new 501(c)(3) with a Project or Pre-Approved Grant Fiscal Sponsorship**

	<b>New 501(c)(3) Corporation</b>	<b>Project Conducted Within Fiscal Sponsor (Model A)</b>	<b>Project Receives Grants From Fiscal Sponsor (Model C)</b>
<b>1. Best option for?</b>	Projects with assured funding; programs with track records, admin and financial staff in place, fully charitable	New, experimental, incubating projects wanting admin and financial management, fully charitable	New charitable projects wanting separate existence, for-profit with new charitable project seeking access to charitable funds
<b>2. First step?</b>	Incorporate in a state	Find a fiscal sponsor	Decide project's legal and tax status, find sponsor
<b>3. Application forms?</b>	IRS Forms 1023 and SS-4, state forms, and attachments	As required by sponsor (proposal, budget, personnel list, etc.)	As required by sponsor (proposal, budget, personnel list, etc.)
<b>4. Governing docs?</b>	Articles of Incorporation, Bylaws	Fiscal Sponsorship Agreement	Fiscal Sponsorship Grant Agreement
<b>5. Governing body?</b>	Your Board of Directors	Advisory Committee, under Sponsor's Board of Directors	Depends on legal form selected
<b>6. Control versus independence?</b>	Your corporation is independent and autonomous	Sponsor has ultimate control, but much authority is delegated to Advisory Committee and Project Director	Project entity is independent, autonomous, but must make regular grant reports to sponsor
<b>7. Wait for confirmation of deduction?</b>	3 to 6 months or more to receive IRS letter, after Form 1023 submitted	No wait; once sponsor accepts your project, immediate	No wait; once sponsor accepts your project, immediate
<b>8. Cost?</b>	Up to \$15,000 or more in attorney fees, IRS filing fee of \$850, state fee of \$25	Sponsor fees vary from 0% to 15% of revenues or expenditures; may impose minimums	Sponsor fees vary from 0% to 15% of revenues; may impose minimums
<b>9. Annual filings?</b>	IRS Form 990, state forms, payroll forms	Progress reports to sponsor; sponsor files Form 990, etc.	Project files own federal, state, and payroll tax forms, depending on form chosen
<b>10. Charitable purpose, no excessive private benefit?</b>	Yes	Yes	Yes; project may be part of for-profit entity if charitable funds restricted

	<b>New 501(c)(3) Corporation</b>	<b>Project Conducted Within Fiscal Sponsor (Model A)</b>	<b>Project Receives Grants From Fiscal Sponsor (Model C)</b>
<b>11. Must meet public support test to avoid private foundation status?</b>	Yes	No	No
<b>12. Lobbying allowance?</b>	5-20% of annual budget	May be more, depending on use by other projects	May be more, depending on use by sponsor's other projects and programs
<b>13. Donations and grants are payable to?</b>	Your corporation	Sponsor, in support of your project's purposes	Sponsor, in support of your project's purposes
<b>14. Who raises money?</b>	Your corporation, in its own name	Sponsor, or project volunteers/employees, for sponsor	Subject to agreement, your project entity for sponsor, with appropriate sponsor involvement
<b>15. Who owns charitable assets?</b>	Your corporation	Sponsor, in an account dedicated to your project, subject to exit agreement	Sponsor holds funds before grants made to project entity, then project owns assets
<b>16. Who pays the bills?</b>	Your corporation	Sponsor, from your project account	Your project entity, usually
<b>17. Who hires staff, does payroll/benefits?</b>	Your corporation	Sponsor	Your project entity
<b>18. Who is liable for project debts/claims?</b>	Your corporation	Sponsor	Your project entity
<b>19. Who obtains insurance?</b>	Your corporation	Sponsor	Your project entity
<b>20. Administrative and technical support?</b>	You are on your own	In addition to financial admin, sponsor may provide HR, IT, office space, and organization development advice	Varies, per negotiated contract with sponsor
<b>21. If project fails?</b>	Must dissolve corporation, do government filings, etc.	Sponsor closes project account	Close (or merge) project entity, or discontinue project if part of for-profit
<b>22. If project succeeds?</b>	Corporation expands	Terminate sponsorship, sponsor transfers assets/liabilities to new nonprofit corp	Terminate sponsorship, project obtains tax-exemption, or transfers balance to new nonprofit corporation

IRS Circular 230 Disclosure Notice: Any tax advice contained in this handout is not intended to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under federal tax law. A taxpayer may rely on our advice to avoid penalties only if the advice is reflected in a more formal tax opinion that conforms to IRS standards. Please contact us if you would like to discuss the preparation of a legal opinion that conforms to these rules.