

As a community group working with a fiscal agent, it's important that you **clearly define expectations, understand potential tax liability, and agree on distribution of funds.**

Why Work with a Fiscal Agent

An organization that does not have tax-exempt status and cannot accept grants or donations might arrange for a tax-exempt 501(c)(3) nonprofit to accept funds on its behalf.

Requirements

These arrangements are appropriate as long as:

- The fiscal agent accepts grant funds for the organization without tax-exempt status.
- The funds are used in a way that aligns with the fiscal agent's mission.

Management of Funds

Fiscal agents can manage funds in a couple of ways.

- The fiscal agent might receive funding *and* administer the funded project/ grant. With this arrangement, work done by the organization without tax-exempt status is managed by the fiscal agent.
- The fiscal agent might retain an individual or organization (without tax-exempt status) as an independent contractor to carry out grant-supported activities. With this arrangement, the organization without tax-exempt status would receive a Form 1099 from the fiscal agent and would be taxed on income/ funds distributed through the fiscal agent.

An Agreement in Writing

We strongly encourage you to discuss the arrangement with your organization's fiscal agent and get the agreement in writing. If you work with an accountant or legal advisor, consult with them as well. Be sure to clarify who will do the grant-supported work, who will report on the funded project, whether there is a fee, and whether the organization without tax-exempt status will have any tax liability.

Some additional resources:

<https://www.councilofnonprofits.org/tools-resources/fiscal-sponsorship-nonprofits>

<https://www.probonopartner.org/publications/fiscal-sponsorships/>