Form 990 Transparency Initiative: What Fiscal Sponsors Need To Know

WHAT HAPPENED

On April 23, 2026, the U.S. Department of the Treasury announced a new Form 990 Transparency Initiative, signaling that the IRS will revise its annual information return to require significantly more detailed reporting by 501(c)(3) organizations. The stated purpose of the initiative is to detect misconduct, expose hidden funding, and hold wrongdoers accountable by making it harder for funds to move through tax-exempt structures without clear documentation.

The proposed revisions will focus on three areas that Treasury has identified as presenting heightened risk:

1. Government grants;
2. Government contracts; and
3. Fiscal sponsorship arrangements.

No changes are immediate. The IRS will issue proposed regulations, and there will be a public comment period before any revisions are finalized. That comment period is an important opportunity for the sector to weigh in, and we encourage fiscal sponsors to engage.

WHY THIS MATTERS FOR FISCAL SPONSORS

Fiscal sponsorship has never been defined in the Internal Revenue Code. It has existed in a well-established but legally informal space for decades, serving as a vital mechanism to efficiently and responsibly get resources to emerging charitable projects that have not yet obtained their own tax-exempt status.

Treasury's announcement implicitly acknowledges this, describing fiscal sponsorship as an "umbrella term" for "longstanding and lawful structures." But it also signals concern that these arrangements can obscure who controls project funds and how they are used.

The proposed Form 990 revisions are expected to require more granular disclosure on:

1. Who controls sponsored project funds;
2. How those funds flow between the fiscal sponsor and its projects;
3. The operational relationship between the fiscal sponsor and sponsored projects; and
4. The source of pass-through funding, including government grants.

Fiscal sponsors that receive or pass through government funding, or that manage projects engaged in foreign grantmaking, are likely to face scrutiny under the new framework.

A MOUNTING LEGISLATIVE AND ENFORCEMENT THREAT

The Form 990 initiative does not stand alone. Fiscal sponsors are now operating in a rapidly intensifying legislative and enforcement environment. Two pending pieces of federal legislation warrant close attention.

The Stop FUNDERs Act. Last year, in response to various protests occurring across the US, Senator Cruz and Representative Van Duyne introduced legislation to amend 18 U.S.C. § 1961(1), the federal RICO statute, to add "rioting" as a racketeering offense. The legislation continues to be a topic of governmental discussion and demands for IRS action. If enacted, the Department of Justice could pursue criminal RICO charges and penalties against organizations that sponsor or fund projects engaged in activities deemed to be rioting. For fiscal sponsors that house grassroots advocacy, civic engagement, or direct-action initiatives, there could be real implications.

The SPONSOR Act (S. 3942). Introduced in February by Senators Cruz and Budd and Representative Moran, the Stop Proxy Organizations Nurturing Subversive Operations and Riots (SPONSOR) Act would amend the Internal Revenue Code to make 501(c)(3) fiscal sponsors explicitly liable, both criminally and civilly, for violations of law committed by their sponsored projects. The bill specifically targets arrangements involving aiding or abetting international terrorism, obstruction of commerce, and obstruction or intimidation of persons exercising constitutional rights. If enacted, a fiscal sponsor could face criminal exposure and civil liability based on the conduct of a sponsored project, regardless of whether the sponsor had direct knowledge of or involvement in that conduct.

These legislative proposals reflect a continued, broad pattern of political scrutiny. The takeaway is that the legal and reputational risk profile of fiscal sponsorship has materially changed.

WHAT FISCAL SPONSORS SHOULD DO NOW

The actions taken and related risks described above call for more than a compliance review. Here is a practical roadmap:

1. **Update your fiscal sponsorship agreements**. Do not wait for proposed regulations. Agreements should clearly establish the fiscal sponsor's discretion and control over project funds, include robust indemnification and termination rights (including for-cause termination tied to activities that create legal, regulatory, or reputational risk), and incorporate expenditure responsibility protocols.

2. **Segregate project funds**. There are dangers inherent in commingling sponsored project funds in a single account which cannot be separately tracked. Each sponsored project should have clearly documented, segregated fund tracking. Proper separation protects both the sponsor and the project in the event of a dispute, audit, or enforcement action.

3. **Implement robust expenditure responsibility controls for foreign grants**. Expenditure responsibility requirements are receiving increased attention in the current regulatory environment, and not just for private foundations. Fiscal sponsors that make grants to foreign individuals or organizations should be aware that such responsibilities are no longer being viewed as a best practice; rather, it is becoming a compliance priority. Ensuring that your grant agreements and internal recordkeeping reflect meaningful oversight of how funds are used is expected.

4. **Conduct a risk assessment of your project portfolio**. Under the SPONSOR Act as proposed, a fiscal sponsor could face criminal or civil liability for the conduct of a sponsored project. Now is the time for a frank review of your current roster, including projects engaged in activities that could be characterized as illegal protesting, politically controversial, or connected to targeted foreign funding sources. High-risk projects may need to be restructured, monitored, or transitioned.

5. **Pause or restructure foreign grantmaking**. Projects that make grants outside the United States, or that receive foreign funding, face exposure under the Form 990 initiative and HR 9495. Consider whether any such arrangements should be paused, restructured with stronger expenditure responsibility and documentation protocols, or transitioned.

6. **Evaluate your fiscal sponsorship model**. Not all fiscal sponsorship structures carry equal legal risk. Comprehensive (Model A) fiscal sponsorship, in which the project is fully integrated into the sponsor organization, with all assets, liabilities, and personnel belonging to the sponsor, provides the clearest legal basis for the sponsor's oversight and control. Less integrated structures create ambiguity. Consider whether migration to a more defensible structure is appropriate.

7. Tighten your internal recordkeeping. The revised Form 990 is expected to require granular disclosure of project control, funding sources, and fund flows. If your records would not support clear, accurate, and complete answers to those questions today, address that now, before the regulatory process is finalized.

8. Assess government funding relationships. Sponsored projects that receive government grants or contracts warrant particular attention and documentation given Treasury's explicit focus on those arrangements.

HOW WE CAN HELP

We work with fiscal sponsors on agreement drafting, compliance, and strategy. If you have questions about how the Treasury announcement may affect your organization, or if you would like assistance reviewing your current practices in light of these developments, please reach out.

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About Meliora Law

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Meliora Law was founded as a response to the changing legal environment and the needs and desires of our clients. Our goal is to build lasting relationships with our clients and deliver services that are reflective of and responsive to client needs and practicalities. Intentionally nimble, we are constantly innovating new ways to better serve clients, including streamlined mechanisms for client communication and project management, the development of alternative fee arrangements and flexible payment models, and a growing array of flat fee packages for legal services.

About the Author

Vittoria Buzzelli is the head of the firm's Not-For-Profit practice group. With an in-depth understanding of the complex regulatory landscape facing tax-exempt organizations, Vittoria has helped numerous organizations navigate the intricacies of nonprofit, tax, governance, and fundraising laws.

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