

More

Raising funds in America without your own 501(c)(3)

Vast numbers of charities outside America enter the US fundraising market, competing with the 1.6 million domestic charities for the £300bn Americans give away each year. Many of these non-US organisations have gone to the expense and trouble of forming a tax-exempt “American Friends” group. While the “Friends” approach is comprehensive, for it is effective with all types of donations, it is also time-consuming, expensive, a permanent administrative burden...and often the wrong step to take at the start. Here are three alternatives.

Intermediaries: The Professional “Middle Men”

There is a class of US charities which exists chiefly to encourage giving by American sources – individual, foundation, and corporation – to charities and causes outside the US. These are called “intermediaries” and a donor can make a gift to one of these charities and ask it to regrant the funds to a non-US based charity. This gift is then tax deductible to the original American donor. For this service, the intermediaries charge a fee. In effect, the intermediary serves as a substitute for a charity outside the US creating an “American Friends” group.

The disadvantages of using an intermediary are:

- All giving is on a “donor-advised” basis. That is, the original donor can only make a non-enforceable “wish” or “suggestion” as to final disposition of the funds; there is no guarantee that the funds will be given in accordance with the wish. Still, billions of dollars are granted in this fashion every year and an intermediary that routinely ignored its donors’ wishes would soon be out of business.
- Gifts to your charity through an intermediary must be made out to the intermediary, not to you. This weakens your brand. Some intermediaries ameliorate this by permitting “named funds” held under the intermediary’s tax exemption.
- Nearly all intermediaries charge fees: for signing up and evaluation at the start, for annual renewal, for creating “named funds”, and especially, of course, for granting you the gifts you have solicited. The fees range from 1% to 8%. On the whole, the larger the gift, the smaller the percentage fee charged. Donors sometimes react poorly to the fees, as they do not always understand the investment needed to raise funds. One intermediary, American Fund for Charities, has an unusual provision to address large gifts: a cap of \$10,000 in fees for any one gift, regardless of size. Another, British Schools and Universities Foundation, does not charge any fee at all.

The five best-known intermediaries in the UK market are:

- [American Fund for Charities](#)
- [Anglo-American Charity Limited](#)
- [British Schools and Universities Foundation](#)
- [CAF America](#)
- [NPT-UK](#) (National Philanthropic Trust-UK)

In addition, there are two others of note:

- [Chapel & York Foundation](#) – a new offering from the leading UK publisher of US fundraising information
- [King Baudouin Foundation US](#) – a well-established intermediary with an especially strong network in Europe and Africa

Pricing among the intermediaries is highly variable. Like mobile phone or utilities contracts, it can be hard to compare one to the other. Your best approach is to estimate how many gifts you will receive in a year and of what sizes, then apply the forecast to each intermediary's particular framework. Not infallible, but better than guessing.

Equivalency / Expenditure Responsibility

If your US fundraising programme is aimed at private and corporate foundations, then you are well situated to establish your “equivalency” to a US 501(c)(3). This will allow direct award of grants by any US private or corporate foundation to your charity. “Equivalency” is established by completing an affidavit and two financial forms, formally laid out in the Internal Revenue Service's Revenue Procedure 92-94, but more readily available on the [Charles Stewart Mott Foundation](#) website. The financial forms present your most recent five years of income in a format as if yours was a US charity filing a tax return. The forms need to be updated each year, when your audit is completed. The papers are submitted to the foundation making the grant. It is up to the donor foundation to decide whether to accept your documentation of equivalency.

An older, and less common, method for receiving foundation awards is through the “expenditure responsibility grant.” This is more work for the grantor foundation when they file their tax returns. It also requires the recipient to segregate the funds received, usually by setting up a separate bank account which is drawn down, as the project goes forward. With an “expenditure responsibility” grant, even a profit-making business can be a grant recipient, if it happens to have a specific charitable programme for which the segregated funds will be used.

Always bear in mind that equivalency and expenditure responsibility only work for private and corporate foundation grants; they do not confer tax-deductibility on individual's donations!

Cooperating US Charity

An underused method for receiving US funds is through cooperation with a like-minded US charity. If your colleagues in the US adopt a joint programme, you will have grounds for raising money through your US partner. A US “publicly-supported charity” will typically have broadly-drafted charitable purposes - usually much broader than a comparable British charity. This gives the Americans flexibility in how they spend their funds. The process cannot, however, be a “conduit” or “pass-through.” There must be genuine congruence in charitable purposes.

There are several disadvantages to cooperation. The gifts will be made out to the American partner, which is the tax-exempt entity under US law, so your brand will be weakened. The donor relationship is shared between the two charities. Most, though not all, US charities will charge between 1% and 8% for their administration of the gifts and their responsibility for correct expenditure and reporting.

Friends

Still longing to set up your own American Friends group? It is best done where you are confident there will be a substantial number and size of gifts from individuals. Educational institutions with alumni in the US are the most likely to be able to justify establishing a Friends group from the start. Arts and culture organisations are a close second, since they often rely heavily on individual contributions. The cost to “form” a Friends group will typically be in the range of £6,000-£12,000, inclusive of about £1,000 in registration fees at the state and federal level. But as to the specific steps for incorporating an American Friends group...that is for another time!

Disclaimer

This paper provides legal **information** for public educational purposes. It is not legal **advice**, for which you must seek out qualified advisors with experience not only with US non-profit organisations, but also with the more specialised world of “Friends Groups” and international philanthropy. A legal advisor will consider all of your particular circumstances and help fashion an appropriate structure to meet your organisation’s needs.

About the author

Ken Hoffman, a US lawyer and fundraising consultant, has recently joined More Partnership as a Partner. His specialism is advising non-US, chiefly British, organisations and their Friends Groups, on governance, compliance, and fundraising strategies. Ken can be contacted at khoffman@morepartnership.com.