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## Legal Issues for Startups in the Charitable Fundraising Space

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The charity-focused startup is a business model that has become popular among entrepreneurs. In this model, the company creates some kind of internet-based platform for charitable giving and charges a transaction fee on the donations that it facilitates. It's easy to see the appeal of these kinds of ventures – if successful, this business model allows the entrepreneur to “do well by doing good.”

What entrepreneurs often do not realize is that charitable fundraising is a regulated field, and failure to comply with state regulations can trigger significant penalties. In California, charitable fundraisers are governed by the Supervision of Trustees and Fundraisers for Charitable Purposes Act (California Government Code, Sections 12580-12599.8). Depending on the startup's role in raising charitable funds, this law may require it to pay registration fees and provide annual reports to the state, and subject it to fines if it does not comply with the statutory requirements.

The internet-based nature of these charity-focused startups compounds the regulatory issue. Because their donation platform may be accessible to donors in all fifty states, these companies may have to contend with not only the regulations of their home state, but all of those from which they are soliciting funds.

It is unfortunate that this complex regulation may have a chilling effect on companies that want to devote their ideas and efforts to creating new ways of charitable giving. At the same time, it is easy to see why states would want to regulate this; they have an interest in ensuring that organizations soliciting their residents for donations under the banner of charity do so in a legitimate and transparent manner.

For entrepreneurs looking to enter the charity-focused space, the key lesson is to be aware that this is a regulated field, and navigating a complicated regulatory framework is one of the costs of doing business.

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*Aaron's practice focuses on corporate law, including startup/venture capital, and mergers and acquisitions. He has represented venture-backed companies in early- and late-stage equity financings as well as debt financings. Aaron has experience representing both buyers and sellers in M&A transactions.*

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