

## Nonprofit Compensation Analysis

### INFORMATION

*Ensure you can defend your compensation decisions against IRS and media inquiries*

#### **Why is it important for not-for-profit organizations to document reasonable compensation?**

Unlike most private companies, foundations and charities must be ready to prove to the IRS that they are not overpaying their employees. If your organization uses a documented process to determine whether compensation is reasonable, it will be more difficult for the IRS or anyone else to challenge it. As an added bonus for public charities and certain other types of exempt organizations, such documentation puts the burden of proving the compensation is unreasonable on the IRS.

If you do not document that process, the IRS is in the driver's seat--and you might not like where they take you. They can levy stiff penalties against an officer or director who received the compensation and managers, including board members, who approved it. Such incidents must be reported publicly on Forms 990 or 990-PF, potentially tarnishing the trust of donors, media, and the public.

#### **What is a compensation study?**

A compensation study considers the job requirements, location, size of the organization, and other facts to provide a reasonable range of compensation for that position in a given market. Through our long experience in the not-for-profit sector, Clark Nuber has created a highly efficient, thorough, and cost-effective process for documenting reasonable compensation, which defends the amount or, for public charities and certain other types of organizations, pushes the burden of proof on the IRS.

#### **Whose compensation should be analyzed, and how often?**

We typically recommend performing compensation studies for the most highly paid individuals that are in a position to influence decisions at an organization or otherwise have a conflict of interest. A compensation study should be performed at the time they are hired, periodically, or when there is a major change in their compensation or position or another need to check the market.

#### **How does the process work?**

When you work with Clark Nuber, you simply fill out an easy-to-understand questionnaire detailing the responsibilities of the position, the current compensation package, and information about the organization and individual receiving it. We then use multiple comprehensive industry data sources to arrive at a range of reasonable compensation based on comparable markets.

#### **Why should we use Clark Nuber for this service instead of doing it ourselves?**

While it is acceptable for organizations to do their own compensation studies, doing them in a way that will stand up to IRS scrutiny can be challenging, time-consuming, and may appear biased, particularly for organizations with small boards.

With Clark Nuber, you can keep the focus on your core activities and gain peace of mind from disruption, penalties, or loss of reputation if the IRS questions your organization's compensation levels. By using Clark Nuber you will:

- Have access to data from thousands of comparable organizations
- Reduce the perception of bias by having the documentation prepared by independent persons
- Reduce uncertainty and risk with a proven approach
- Gain an advocate with the experience to respond effectively to IRS inquiries

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