blue octopus
consulting

COMPENSATION APPROVAL

Board Minutes Documentation Checklist

IRS Rebuttable Presumption of Reasonableness

IRC §4958 | Treas. Reg. §53.4958-6

To approve compensation for a disqualified person, the board or authorized committee must document how the decision was reached, including the comparability data relied upon, in the minutes of the meeting during which compensation was approved.

A "disqualified person" includes officers, directors, key employees, substantial contributors (and their family members) who are in a position to exercise substantial influence over the organization's affairs.

The IRS presumes compensation is reasonable when three conditions are met:

1. The approving body is **independent** and approves compensation **in advance** of payment.
2. Appropriate **comparability data** is obtained and relied upon.
3. Documentation is **contemporaneous** with the decision.

1. MEETING DETAILS

☐ Approving Body: ☐ Board of Directors ☐ Executive Committee ☐ Compensation Committee

☐ Date of Meeting: _____

☐ Name of Disqualified Person and Position: _____

☐ Compensation approved prior to payment/effective date

2. MEMBERS PRESENT & INDEPENDENCE

☐ All members present are documented by name

☐ Any member with a potential conflict of interest is identified

☐ Any conflicted member recused themselves from discussion and vote

☐ Independence confirmed: approving members are not themselves disqualified persons with respect to the transaction, do not have a financial interest in the outcome, and are not subject to the control of the disqualified person

☐ Expertise and knowledge of the approving body regarding the position is noted

3. COMPARABILITY DATA

- ☐ Description of comparability data used
- ☐ Sources of comparability data identified (e.g., Form 990s, salary surveys, actual employment offers)
- ☐ How the data was obtained
- ☐ Explanation of why the data was chosen as comparable
- ☐ Whether data reflects salary only or total compensation package (salary + benefits + deferred compensation, etc.)

Small Organization Note: For organizations with annual gross receipts under $1 million, comparability data from three comparable organizations in the same or similar communities for similar services is sufficient. (Treas. Reg. §53.4958-6(c)(2))

4. COMPENSATION DECISION & ACTIONS

- ☐ Determination of compensation level is documented
- ☐ Total compensation package approved (base, bonus, benefits, other)
- ☐ Actions taken are recorded, including:
  - ☐ Motion made and by whom
  - ☐ Vote recorded (including any abstentions)
  - ☐ Date of approval
  - ☐ Name of person recording minutes

5. CONTEMPORANEOUS DOCUMENTATION

- ☐ Minutes prepared contemporaneously

IRS Deadline: Minutes must be prepared by the later of: (a) the next meeting of the approving body, or (b) 60 days after the final action is taken. (Treas. Reg. §53.4958-6(d)(1))