



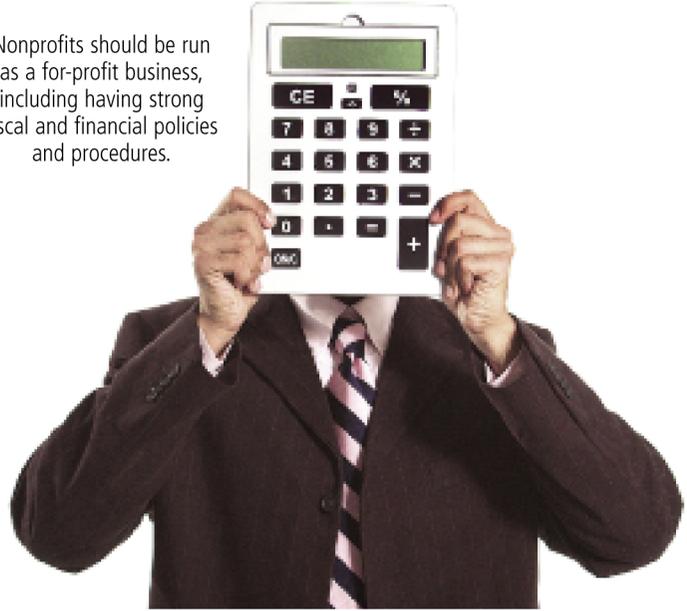
**Wilentz, Goldman & Spitzer, P.A.**

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Exercise care in setting compensation for executives who are board members. New Jersey law permits compensation for a trustee for services to a nonprofit so long as such compensation is in the organization's best interests and is fair and reasonable. Executive compensation is scrutinized by the IRS which requires that compensation paid to insiders be reasonable and appropriate. If the IRS determines that compensation is not reasonable, deemed an "excess benefit transaction" under Intermediate Sanctions Legislation, penalties may be imposed on the executive and the board members authorizing such compensation, and the entity's tax-exempt status may be at risk. Trustees may be protected under a safe harbor if an opinion of counsel is obtained confirming certain procedures were followed. The IRS requires that compensation paid to insiders be tested against market standards for arms-length transactions. The board should obtain comparability data for review excluding trustees who have an interest in the proposed compensation. "Disqualified persons" under the regulations include the executive, relatives of the executive

who are trustees and board members who themselves receive compensation from the organization. Once compensation is set, memorialize the decision-making process, document the arrangements with the executive and properly report to the IRS. ■

Nonprofits should be run as a for-profit business, including having strong fiscal and financial policies and procedures.



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