



Compensating nonprofit board members

Contrary to popular belief, it's usually perfectly legal to compensate not-for-profit board members — and sometimes it might even be necessary. But is it right for your organization?

Pros and cons

Board member compensation comes with several pros and cons to consider. Your organization might, for example, find it worthwhile to offer compensation to attract individuals who:

- Are prominent or bring highly specialized expertise.
- Could receive generous compensation from for-profit organizations for serving on their boards.
- Are expected to invest significant time and effort.
- Represent diverse cultures, classes and ages.

Also, if your nonprofit has a business model that competes with for-profit organizations, such as a nonprofit hospital, board compensation may be appropriate. In general, providing compensation can improve board member performance and promote professionalism. It may incentivize meeting attendance and accountability.

But there are several drawbacks. First, *it can look bad*. Donors expect their funds to go to program services, and board compensation represents resources diverted from your organization's mission. Further, there are legal and IRS implications. For example, in some states volunteer board members are protected from legal liability, while compensated members may not be.

Implementation matters

If you decide to compensate board members, make sure your arrangement complies with the Internal Revenue Code's private inurement and excess benefit regulations, as well as the IRS rules about "reasonable compensation." Failure to do so can result in excise taxes, penalties and even the loss of your tax-exempt status.

Independent directors, an independent governance or compensation committee, or an independent consultant should set the amount of, or formula for, board compensation. Whoever sets the amount should be guided by a formal compensation policy and make the amount comparable to that paid by similar nonprofits.

Your policy should outline:

- How compensating board members benefits your organization (for example, by allowing it to attract a member with financial expertise),
- Which members are eligible for compensation (the chair, the officers or all members),
- How compensation is structured (for instance, flat or per-meeting fee), and
- Expectations for board members in exchange for compensation, such as meeting attendance, qualifications and experience.

Also document all compensation discussions, including your board's formal vote approving the policy and the compensation amounts.

The bottom line

Ultimately, the decision whether to pay your board members will come down to your nonprofit's culture, the expectations of donors and members, and similar factors. If you decide to move forward, discuss the matter with your attorney. We can also help answer your compensation questions.

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