
REASONABLE COMPENSATION CHECKLIST

LEVEL 1 – SET PAY YOUR OWN WAY (AT YOUR OWN RISK)

- We believe we're paying reasonably, based on all the facts and circumstances, and adequate information about the market.

LEVEL 2 – SAFE HARBOR (RECOMMENDED)

Note that the IRS has never challenged the presumption of reasonableness established by safe harbor in court.

- We used data to make our decision**

For smaller organizations (budget less than \$1 million per year): 3 documented phone calls to similar organizations in your market is considered adequate for the safe harbor. You can [contact us](#) for help identifying similar organizations.

For larger organizations (budget over \$1 million per year): more care and detail is expected the larger you are.

- Surveys or reports ([*our report](#)) – *reportable to the IRS*
- Form 990 info (*included in [our report](#)) – *reportable to the IRS*
- Written offers of employment – *reportable to the IRS*
- Phone calls with leaders at similar organizations – *reportable to the IRS*
- The decision makers were independent – *reportable to the IRS***
 - Didn't include the people being paid AND
 - Didn't include family members of the people being paid
- When we decided, we documented it**

LEVEL 3 – BEST PRACTICES

- We have a formal executive pay policy – *reportable to the IRS***
- We've hired a compensation consultant, if needed – *reportable to the IRS***

If you would like additional assurance, have an unusual situation, or would just like an independent voice in the room, it is common practice to hire a consultant to review your compensation and give an opinion. You can work with us, or look one up.

Consult your accountant and attorney on the subject. This checklist is for informational purposes only. It is not legal nor tax advice.

HAVE MORE QUESTIONS? GET IN TOUCH.

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