Title: Avoiding Trouble With the IRS **#** 250

Source: Chronicle of Higher Education **Co Area:**

Addl Info: http://chronicle.com/article/Avoiding-Trouble-With-the-IRS/44602/

Abstract: In recent months, the Internal Revenue Service has announced that it intends to audit as many as 2,000 nonprofit organizations. It has not divulged what percentage of those audits will involve colleges and universities. One of the things the auditors will be looking at is presidential compensation. There is no doubt that the IRS will be examining the Form 990's and looking at those institutions whose CEO's receive especially high levels of compensation.

Some trustees who serve on the compensation committees of their boards have asked whether it is permitted, or even appropriate, for them to consider compensation levels in the for-profit sector when setting their president's pay. The IRS itself advises that it is permissible for nonprofit compensation committees to take into account salaries and other kinds of compensation paid to the CEO's of for-profit entities that are approximately the same size and complexity as their university.

The regulations and guidance deal with Section 4958 of the Internal Revenue Code -- also known as "intermediate sanctions" -- which provides that the IRS can impose a penalty or tax on both an overpaid CEO and on the individual board members who approved the excessive payment.

An acceptable procedure for a board to follow would be as follows:

* A governing board should appoint an independent committee or subcommittee made up of three to five trustees who do not have a conflict of interest with the president, to review and establish the president's compensation.

Boards at public universities ought to view establishing such a committee as a "best practice."

* That committee would be well advised to seek the advice of an experienced, outside, independent expert, who in turn should base his or her recommendations on current compensation data from institutions of similar size and complexity.

* Using data supplied to it by the outside consultant, the committee should review the president's compensation periodically. Then, using their best judgment, the members of the committee or the full board should set the president's pay.

According to IRS regulations under Section 4958, if such a procedure is followed, and if the IRS later challenges the board's decisions in an investigation or audit, the burden of proof would shift from the university to the IRS to show that the compensation is excessive.

Title: Presidential Compensation in Higher Education: Policies & Best Practices **#** 687

Source: Association of Governing Boards of Universities and Colleges **Co Area:**

Addl Info: http://eric.ed.gov/

Abstract: Search for ED441363, EJ757206, HE 032 820, ED441363
This book is designed to help leaders of higher education institutions set and negotiate compensation for academic presidents. Its central aim is to strengthen governing board decisions regarding presidential compensation, though it also focuses on other highly compensated institutional officers. The findings are based on interviews with independent and public higher education officials, legal experts, government officials, and recruitment and compensation specialists, as well as a survey of board chairs and presidents from four- and two-year public and private institutions. The study finds that the roles of college and university presidents differ from their counterparts in several respects: their responsibilities far exceed their authority, which is limited by statute, bylaws, or institutional culture; their motivation for attracting funding is to enrich the institution's mission rather than build value for shareholders; and much of their prior work as teachers and scholars does not truly prepare them for the responsibilities of the presidency. Chapters summarize major findings and 'good practice' recommendations. They also discuss the context for presidential compensation; public accountability demands; board structure and decision making; public communication strategies; using outside information and expertise; and employment contracts. Two appendixes offer additional options to consider in compensation contracts and a summary of survey results.