

Compensating Nonprofit Board Members

Though it is commonplace for board members to serve on a volunteer basis, there is technically no law in PA prohibiting board members from receiving compensation for their service. Under Pennsylvania Law (Pa. C.S. § 5730), a nonprofit's board can receive compensation, unless the organization's bylaws specifically state otherwise.

There are some considerations an organization should take when considering compensating its board members:

- **Current bylaws:**
 - Organizations should review its existing bylaws to determine if it restricts board member compensation. If an organization's bylaws prevent board member compensation, it should meet with an attorney before making any changes or moving forward with a compensation plan.
- **Conflict of interest:**
 - The IRS has strict rules to prevent conflicts of interest, so board members should not influence or approve their own compensation. This decision should be made by an independent committee to ensure no ulterior motives.
- **Overcompensation:**
 - The IRS requires any compensation provided to board members to be "fair and reasonable." Excessive compensation is considered a form of financial mismanagement that board members have a legal obligation to prevent. The IRS can revoke an organization's 501(c)(3) tax-exempt status if it determines that board members have received excessive compensation. For more information on overcompensation and determining appropriate compensation, please refer to [Jason Qu's presentation provided through the D.C. Bar Pro Bono Center](#).
- **Civil Rights and Antidiscrimination:**
 - When deciding which board members are eligible for compensation, nonprofits must ensure that they are not classifying eligible groups based on race, sex, gender, age, or any other [federally protected traits](#).
- **Insurance and Liability:**
 - Board members who volunteer their time and expertise are generally afforded statutory protection and will not be held liable for issues unless determined to be acting in poor faith. Compensated board members may not be afforded the same protections, so nonprofits that opt to compensate its board members should obtain Directors' and Officers' Insurance.
- **Employment Status and Filings:**
 - Compensation over \$600 must be reported on IRS Form 1099-NEC as independent contractor income. Organizations are required to issue state tax forms to compensated individuals and must also disclose any compensation on IRS Form 990.
- **Fundraising and Public Relations**
 - Compensating board members has the potential to impact a nonprofit's public relations and success in fundraising. Not only is it standard practice for board members to volunteer their time and expertise, board members also commonly donate to the organizations they are involved with. Compensating board members can diminish public trust and confidence, therefore reducing private donations and grant money received.

If your organization is considering compensating board members, it is advisable to discuss with an attorney beforehand. VIP may be able to find a volunteer attorney to provide you with more detailed guidance.

