

1. Title

Determining and Documenting the Reasonableness of Compensation

2. Rule and Regulation

Sec. 1 Setting of Compensation. Institutions of The University of Texas System are charged with setting compensation levels for Highly Compensated Personnel in such a way that compensation is reasonable and adequate documentation is maintained for supporting the reasonableness of compensation paid. Internal Revenue Code (IRC) [Section 162](#) imposes a reasonableness requirement for the deductibility of compensation as a business expense and its applicability has been extended to tax-exempt organizations. IRC [Section 4958](#) imposes excise taxes on excess benefit transactions between a tax-exempt organization and certain influential persons within the organizations. Although the U. T. System is not subject to the IRC sections, the process used to determine compensation by U. T. System shall be pursuant to a process in conformance with the spirit of the Internal Revenue Service (IRS) guidelines in *Internal Revenue Manual Section 4233.27*, which lists the factors used to determine the reasonableness of compensation in IRC [Section 162](#) reasonable compensation cases.

Sec. 2 Compliance with IRS Guidelines. The Chancellor shall develop a Systemwide policy for establishing the compensation for Highly Compensated Personnel, not covered in Regents' *Rules and Regulations*, [Rule 20203](#) (which outlines the procedures for establishing the compensation of the presidents and executive officers at System Administration), that is in conformance with the spirit of the Internal Revenue Service's *Internal Revenue Manual Section 4233.27*.

Sec. 3 Board Approval. Compensation for employees of the U. T. System whose total annual compensation is \$1 million or more and who are not covered in Regents' *Rules and Regulations*, [Rule 20203](#) must be approved by the Board of Regents. The employing institution is responsible for providing documentation that the compensation was established in accordance with the Systemwide policy for establishing the compensation for Highly Compensated Personnel. In addition, compensation for athletic directors and coaches whose total annual compensation is \$250,000 or more must be approved by the Board of Regents pursuant to Regents' [Rule 10501](#), Section 4.12.

Sec. 4 Executive Vice Chancellor Approval. Compensation for employees of the U. T. System whose total annual compensation is \$500,000 or

more but less than \$1,000,000 and who are not covered in Regents' *Rules and Regulations*, [Rule 20203](#) must be approved by the appropriate Executive Vice Chancellor. The employing institution is responsible for providing documentation to the Executive Vice Chancellor that the compensation was established in accordance with the Systemwide policy for establishing the compensation for Highly Compensated Personnel.

3. Definitions

Highly Compensated Personnel – employees of the U. T. System whose total annual compensation is \$500,000 or more and are not covered in Regents' *Rules and Regulations*, Rule 20203 (Compensation for Key Executives).

Total Annual Compensation – includes salaries or wages, practice plan supplements, incentive plan payments, and unpaid deferred compensation and excludes employer-provided insurance, expense allowances, employer contributions to Teachers Retirement System of Texas and Optional Retirement Program, and other fringe benefits.

4. Relevant Federal and State Statutes

Internal Revenue Code [Section 162](#) – Trade or Business Expense

Internal Revenue Code of 1986 [Section 4958](#) – Taxes on Excess Benefit Transactions

Internal Revenue Manual [Section 4233.27](#)

5. Relevant System Policies, Procedures, and Forms

Regents' *Rules and Regulations*, [Rule 20202](#) –Cash Compensation for Chief Administrative Officers

Regents' *Rules and Regulations*, [Rule 20203](#) – Compensation for Key Executives

Regents' *Rules and Regulations*, [Rule 10501](#), Section 4.12 – Delegation to Act on Behalf of the Board

6. Who Should Know

Chancellor
Executive Vice Chancellors
Vice Chancellor for Administration

Presidents

7. System Administration Office(s) Responsible for Rule

Chancellor

8. Dates Approved or Amended

Editorial amendments to Section 3 and Number 5 made August 26, 2009

Editorial amendment to Number 5 made March 18, 2008

May 11, 2006

July 8, 2005

9. Contact Information

Questions or comments regarding this Rule should be directed to:

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