

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 personnel in such a way that compensation is reasonable and adequate documentation is maintained for supporting the reasonableness of compensation paid. The presidents will implement appropriate policies and procedures concerning compensation at each U.T. System institution.

Sec. 2 Determining compensation for Highly Compensated Personnel in compliance with IRS Guidelines. The Internal Revenue Code and related IRS guidelines provide guidance for determining the reasonableness of compensation for certain highly compensated employees. Although much of this guidance is not directly applicable to the U.T. System, compensation for Highly Compensated Personnel will be determined pursuant to a process in conformance with the spirit of these authorities, as well as any other factors deemed relevant. The Chancellor must develop a Systemwide policy for establishing the compensation for Highly Compensated Personnel not defined as Key Executives in [Rule 20203](#), that is in conformance with this standard.

Sec. 3 Approval required.

3.1 Board Approval. Initial Total Annual Compensation and changes to Total Annual Compensation that may exceed the amount set as the institutional contract threshold discussed in [Rule 10501](#), must be approved by the Board of Regents, except as provided by [Rule 10501](#) for athletic directors or coaches or by Subsection 3.2 below. This approval can occur through the approval of the annual operating budget or as a stand-alone item during the fiscal year.

3.2 Chancellor approval. For proposed changes not included in the annual operating budget, the Chancellor may approve changes of up to five percent per year of an institutional employee's Total Annual Compensation that was approved by the Board pursuant to subsection 3.1.

3.3 Documentation required. In all cases, the employing institution is responsible for maintaining documentation that the compensation

was established or changed in accordance with applicable Systemwide policy.

3. Definitions

Highly Compensated Personnel – personnel whose Total Annual Compensation is, or may exceed, \$1 million in any year and who are not covered in Regents' *Rules and Regulations*, [Rule 20203](#) (Compensation for Key Executives).

Total Annual Compensation – includes an employee's salary 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, longevity pay, and other fringe benefits.

4. Relevant Federal and State Statutes

Internal Revenue Code Section 162 – Trade or Business Expense - imposes a reasonableness requirement for the deductibility of compensation as a business expense; applicability has been extended to tax-exempt organizations

Internal Revenue Code of 1986 Section 4958 – Taxes on Excess Benefit Transactions - imposes excise taxes on excess benefit transactions between certain tax-exempt organizations and persons in a position to exercise substantial influence over the affairs of the organizations

5. Relevant System Policies, Procedures, and Forms

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

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

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

The University of Texas Systemwide [Policy UTS 144](#), *Establishing Compensation for Highly Compensated Employees*

6. System Administration Office(s) Responsible for Rule

Office of Budget and Planning

7. Dates Approved or Amended

[Regents' Rules Revision History](#)