Frequently asked IRS questions

On a daily basis, my staff and I talk to branch financial officers who have questions about financial issues. In addition, many questions surface during the secretary-treasurer seminars. After the question is answered, the branch officer may be directed to the *NALC Branch Officers Guide to Finance and Administration*, available for $6 from the NALC Supply Department or for free on the NALC website. The guide is broken down into the following areas: officer duties, NALC dues, reporting to the Department of Labor, reporting to the Internal Revenue Service, bonding and record-keeping. If your branch secretary-treasurer does not have this guide, I strongly suggest that one be purchased for use by all fiduciary officers of the branch.

The following is a sample of common IRS-related questions asked in telephone calls and letters to my office and during the seminars, as well as the answers and where the answers can be found in the guide mentioned above.

If we pay our stewards $150 per month as a stipend, do we have to file a W-2?

Yes. Stewards are considered to be employees of the branch, and as such, the branch must report "stipends" as wages and withhold the appropriate taxes. This holds true for all officers of a branch receiving any payments that could be considered "wages" (pages 4-4 and 5).

I heard that if you stay under $600 per year paid to a branch officer, you don't have to do anything, not even issue a 1099. Is this true?

No. Again, officers are considered employees of the branch, and as such, you must deduct payroll taxes and the branch must pay taxes since the branch is an employer. It does not matter how much money an employee earns; the branch must pay all payroll taxes and issue a W-2 (page 4-8). A Form 1099-MISC is issued under two circumstances: 1) The branch makes a payment under a Non-accountable Plan (travel expense reimbursement—see pages 4-15 and 16) to a member who is not considered an employee under IRS tax rules, and 2) The branch makes a payment to somebody who is not a member for services rendered to the branch.

The 1099-MISC must be issued only for services rendered, and not when payments are made to purchase goods. The 1099 must be issued only when total payments to the individual are $600 or more during the tax year (page 4-18). However, this does not exempt the individual from claiming the extra income.

My branch has been receiving notices from our state that we must purchase workers' compensation insurance. Is this true?

In all 50 states, if you pay any wages, then you are considered an employer and workers' compensation insurance is mandatory (pages 4-6 and 7). In some states, the insurance must be secured directly with the state fund. In most states, the premium and benefit structures are set by each state government, but the actual insurance coverage is provided by standard insurance companies via your insurance agent. Volunteers and/or employees who receive very little compensation may be exempt from such coverage in some states. You should check your state's website for further information and/or clarification.

Is it OK to give branch officers travel advances?

Travel advances are fine, as long as you keep certain rules in mind. To be in compliance with the rules outlined by the Labor Management Reporting and Disclosure Act, the sum of all advances to any one individual in a fiscal year should never exceed $2,000. Also, the officer receiving the advance should document expenditures against the advance and return to the branch any excess funds for which documentation was not submitted. Otherwise, the branch must consider any undocumented portion of the advance as taxable income of the officer who received the advance and include it as such on a W-2 that the recipient must be given at the end of the calendar year—even if this is the only income the individual received from the branch.

Note: Making an early payment directly to a hotel or airline is not considered a travel advance. In addition, IRS rules require an advance for expenses to be made within a reasonable time—generally no more than 30 days before the expenses are expected to be incurred. Under the LMRDA, an advance for expenses is considered a reportable loan unless the advance is provided within 30 days of travel and accounted for within 30 days following the trip (see page 4-21). To avoid problems encountered when advances are not properly accounted for, it may be best to forgo advances and instead reimburse for expenses after receipts have been submitted.

The above only hits the tip of the iceberg. Other branch finance-related issues will be addressed in future columns.