



## How to avoid LMRDA and IRS violations

**I**nadequate bonding is the most frequently cited violation of the Labor-Management Reporting and Disclosure Act, and NALC's branch and state association presidents and treasurers should assure that at least once per year, calculations are made to ensure that the appropriate amount of bonding is obtained. The best way to ensure that a branch or state association will not be cited as violating the LMRDA is to calculate the bonding coverage at the end of the fiscal year, while preparing the LM report.

At the time the LM report is prepared, the branch treasurer should calculate the minimum amount of the bond necessary to fulfill the Department of Labor's requirements, and increase the amount of the bond if necessary. Ensuring that at least the minimum amount of coverage has been secured by the branch will protect the branch's funds from financial losses caused by "fraudulent or dishonest acts" of union officers or employees. The minimum coverage required by law is 10 percent of the total of *liquid* assets and receipts.

A bonding computation worksheet can be found at the end of Chapter 5 of the *NALC Branch Officer's Guide to Finance and Administration* and should be used when calculating the bonding requirement, particularly by LM-2 branches. However, smaller branches may use the simpler formula as stated above. More information on bonding is available in Chapter 5 of the guide, which is available for \$12 from the NALC Supply Department or free on the NALC website at [nalc.org](http://nalc.org).

Common mistakes in calculating the bond amount—which may cause a branch or state association to be under-bonded—include deducting payments for utilities, office supplies, travel, etc., from total liquid assets and receipts, then calculating the bond amount and/or using the current year end's "liquid assets" rather than the start of the fiscal year, when this amount is smaller than at the beginning of the year.

If your branch is having difficulties related to the calculation of the bond or obtaining a bond, please contact your accountant or my office for assistance.

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**If your branch has lost tax-exempt status, it is very important, particularly if your branch receives local dues**

income, to take the necessary steps to have your branch's tax-exempt status reinstated *retroactively* before Dec. 31. **Beginning Jan. 1, 2013, any branch that does not have tax-exempt status with the Internal Revenue Service will become a taxable organization and will receive a letter from the IRS stating that tax forms must be filed.** In addition, regaining tax-exempt status retroactively is important to avoid the filing of tax forms and the payment of federal taxes and, in some cases, state taxes on dues income as well as interest or dividend income earned from savings and other investments for the years the branch did not have tax-exempt status.

In my April 2012 column, I announced that it was possible that the IRS might reinstate the tax-exempt status of NALC branches eligible to file a 990-N. However, after discussing the matter with the IRS director of exempt organizations at a recent AFL-CIO secretary-treasurer meeting, it is highly unlikely that this will occur. Therefore, I urge *every* branch that lost tax-exempt status to seek *retroactive* reinstatement immediately, regardless of the amount of income involved. Branches eligible to have filed a 990-N in tax years 2007, 2008 and 2009, which correctly apply for reinstatement, will automatically receive retroactive reinstatement. Branches applying for retroactive reinstatement of tax-exempt status and not eligible to file a 990-N must submit any Form 990s not completed for tax years 2007 through 2010 and include them with the application along with the appropriate fee.

Any NALC branch that applies for and receives notice that its tax-exempt status will be reinstated should be advised that it will receive its own group exemption letter and will no longer fall under National's group ruling.

The NALC website under the "Secretary-Treasurer" tab contains all the information and forms you should need to apply for retroactive reinstatement of tax-exempt status. In addition, branch treasurers are advised to look at the IRS' website at [dol.gov](http://dol.gov) and read more about this issue so the proper forms and correct payment are sent with the application, with proper notation on the application and envelope to the correct IRS address. This information can be found on the "fact sheet" available on the IRS website and at [nalc.org](http://nalc.org). ☒