

Legacy Advisor

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LABOR ORGANIZATIONS

LM-2 Reporting Requirement Changes

The new Form LM-2 reporting requirements are significantly different from the old rules. The area of greatest change is the reporting of cash disbursements. One change is the functional reporting requirements. Under the new rules, many expenditures must be allocated into five functional activity categories – representational activities; political activities and lobbying; contributions, gifts, and grants; general overhead; and union administration.

The Statement B of the new Form LM-2 is used to report cash disbursements made during the year. Certain expenditures such as benefits, per capita tax, strike benefits, fees, and taxes are listed separately on the form (lines 55 thru 67)

and are reported on the appropriate lines. Expenditures for salary and direct and indirect disbursements on behalf of an employee or officer must be allocated to the officer or employee and reported on Schedules 11 and 12. The reporting of these expenditures is virtually unchanged. The amounts reported on Schedules 11 and 12 are allocated to the functional categories based on the percentage of time reported by the officers and employees. See *Time Allocation for the New LM-2 Form* in Issue No. 04-2. All other disbursements, however, must be allocated to one of the five functional categories. What this means is that expenditures will no longer be reported using their account descriptions such as printing, rent, or telephone for LM-2 reporting purposes. Instead, they will be reported by functional category. However, you will still need to report the expenses by accounts for financial statement and Form 990 reporting.

Another change is the reporting of major disbursements. Major disburse-

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Legacy News

What a year it has been for labor unions. This is definitely a very important time to be working with a CPA firm that specializes in labor organizations.

As many of you know, we have been very busy presenting seminars on the LM changes for labor organizations all over the country. We are continuing to present updates and ideas on how best to comply with the new requirements. We will also continue to write about the changes in each issue of this publication. See our article on page one for information on some of the important changes.

In addition to the LM-2 seminars, Bob Cann, CPA, our Director of Compliance Services, presented at a well-attended Illinois AFL-CIO meeting on August 10 in Chicago about Form 990. The Illinois State Board of Elections and the Department of Labor (DOL) also made presentations. Bob will present on the Form 990 again at the IL AFL-CIO's December 1 meeting in Springfield, IL.

This issue of *Legacy Advisor, Labor Organizations* was edited by Chicago partner Donna Hubert, CPA. Contact Donna at dhubert@legacycpas.com or at 312-384-4238 if you have any comments, questions, or if you would like to arrange a seminar on the LM changes for your organization.

We sincerely thank you for your continued support of the Firm. Our goal is to provide technical expertise and superior client service to all of our clients. Please do not hesitate to contact us at any time if you need anything or if you have any feedback or suggestions for us.

- The partners and staff of Legacy Professionals LLP

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Implications of the Check 21 Act

Electronic delivery is affecting almost every industry, and banking is no exception. In fact, many banks truncate checks by delivering photocopies of checks or by sending a list detailing the number, amount, and clearing date of the check; and holding on to the originals instead of sending them back to customers. On October 28, 2004, the Check Clearing for the 21st Century Act, or Check 21 Act, became effective. The act allows banks to take this one step further. Any entity in the check clearing process will be able to truncate checks and forward an electronic copy of the check. When this occurs, the electronic image of the check is transformed into a "substitute check" that will now be recognized as the legal equivalent of the original check.



The intent of the Act is to cost-effectively and efficiently streamline check processing by enabling the electronic processing of checks. The ability to process checks electronically will decrease processing time, transportation costs, and the possibility of items lost or destroyed in transit. Checks will clear in hours instead of days because a substitute check can be accepted as legal. Consumers may receive copies of their checks instead of cancelled paper checks.

While the Act is voluntary, most banks are expected to take advantage of potentially significant cost savings, with the larger institutions leading the pack. It is expected that the process will take a number of years before it becomes standard. Once one bank decides to create a substitute check, all other downstream banks involved in the clearing process must use the substitute check. Whether the substitute check is then forwarded physically or whether it is transmitted electronically will be determined by the agreements between banks in the clearing system. Banks and institutions will also make their own policies on how long to keep the original check.

A "substitute check" is a paper reproduction of the original check that contains an image of the front and back of the original check. It conforms, in paper stock, dimension, and otherwise, with generally applicable industry standards for checks. The original check is truncated, or taken out of circulation. The substitute check contains a legend that reads "This is a legal copy of your check. You can use it the same way you would use the original check."

Although the effects of the Act will not happen overnight, there are several implications to be aware of.

- You will see fewer and fewer original checks as they are replaced by substitute checks. Also, as banks begin to move towards electronic transmission, the substitute checks will be replaced by electronic images.
- Decreased processing time means that there will be a reduction in the amount of time between when you write your check and when it clears your account (float).
- Deposit clearing rules are not affected by the Check 21 Act. Therefore, while the decreased processing time will reduce the length of time that a check written on your account clears, the length of time that a deposit is credited to your account will vary depending on your relationship with your bank.
- In disputes, substitute checks will be recognized as the original by the courts, retailers, and other providers.

The new Act does not specify what must be returned to the customer. That decision is left up to the bank. Because of the range of delivery options, understanding what your financial institution will return should be a top priority. This information will enable you to revise, if necessary, your internal controls over cash.

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This article was originally printed in the AICPA News Update (10/22/04). With their permission, we have reprinted excerpts from their article.

Form 8872 Update



Renee Berg Speck, CPA

Certain Section 527 political organizations are required to file Form 8872, Report of Contributions and Expenditures. The Internal Revenue Service has announced it is taking steps to improve reporting and disclosure by these political organizations. Any Form 8872 that appears to be incomplete, was filed late, or was amended, and is materially different from the original filing will be looked

at. A political organization that fails to report timely, include all required information about contributions and disbursements, or that reports incorrect information

may be required to pay 35% of the amount related to the failure.

Since the election was on November 2, a post election Form 8872 must be filed by December 2, 2004. The filing must include reportable receipts and disbursements through November 22, 2004. A report for the 4th quarter of 2004 is due January 31, 2005, including receipts and disbursements made November 23 through December 31, 2004. Semiannual reports may be filed in 2005. Contact us if you have any questions.

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LM-2 Reporting Requirement Changes

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ments are determined by vendor and functional category. An itemization page must be completed for each functional category in which a vendor was paid at least \$5,000 during the year. The itemization page includes the name, address, and type or classification of the vendor. Single disbursements to a vendor allocated to a functional category of \$5,000 or more must be reported as individually itemized disbursements and also include the purpose, date, and amount of each transaction. Disbursements that are individually less than \$5,000 but total \$5,000 or more in a functional category are included in total by the vendor.

The final change is in the reporting of credit card charges. Payments of credit card charges may not be treated as a single disbursement to the credit card company. Instead, each charge is a separate item and must be reported based on the vendor that provided the goods or services. While the check will be made payable to the credit card company, you will be required to not only allocate by employee or functional category but also track the disbursement by vendor. If the full balance is not paid on a credit card, you must treat specific charges as being paid and allocate those amounts as required. As additional payments are made, the remaining charges are allocated until the full balance has been paid.

These changes present the challenge of how best to maintain a set of books that gives you the information needed to prepare the Form LM-2 and still give you the information you need to run your organization. For

example, you could have a bill for legal fees that must be allocated to multiple functional categories for LM-2 reporting. You must be able to post the disbursement to the legal fees expense account and also allocate it among the appropriate functional categories in your general ledger.

One thing is for sure. Every organization will need to make changes to its bookkeeping system. The extent of the changes depends on your individual situation. Let us know if we can be of assistance.

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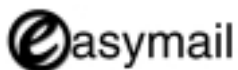
Social Security Wage Base Changes



The Social Security Administration has announced the adjustments to the taxable wage base for 2005. Wages subject to Social Security tax will increase to \$90,000 in 2005, up from \$87,900 in 2004. Medicare tax is paid on all wages. The tax rates, 6.2% Social Security and 1.45% for Medicare, will remain unchanged for 2005.

Look for our 2005 Rates and Limits Release in early 2005. The release summarizes various payroll tax and pension plan limits.

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