Recordkeeping
Individual And business

Recordkeeping is an essential part of being prepared to complete your tax returns. Without adequate records, deductions or income may be improperly reported. Your records provide the source which identifies your income and expenses in an audit. So be sure to plan enough time throughout the year to maintain these vital records. Hastily assembling your documents before your tax appointment is not good enough. But which records are important, and how long should you keep them?

Generally, returns can be audited up to three years after filing. However, if income is underreported 25% or more, the Internal Revenue Service can collect underpaid taxes up to six years later.

Individual Recordkeeping

Common records you need to keep:

- Records of income, including bank statements.
- Expense items, especially work-related expenses.
- Home sales and refinances.
- Investment purchases and sales information.
- The tax basis of gifted and inherited property.
- Specific uses of loan proceeds.
- Medical expenses.
- Charitable contributions, both cash and noncash.
- Interest and taxes paid.
- Mortgage interest statements.
- Property tax statements.
- Records on nondeductible IRA contributions.

How should you keep your tax records? Any way that is best suited for you that will allow you to give complete information on: How much? What for? When? Where? Why? A good rule of thumb is to keep bank statements, credit card statements, and actual receipts.

Business Recordkeeping

Tax law requires all businesses to keep records to support gross income, deductions, and credits claimed on their income tax returns.

All businesses should have a permanent set of books which summarize the business transactions of income, disbursements, adjustments, and credits. These records should be retained indefinitely and organized by year and type of income or expense. Permanent records are necessary to prove the basis (cost) of depreciable assets.

If your business tax return is selected to be examined by the IRS, supporting documents will be required to validate the entries. The general rule is that supporting documents should be retained at least until the statute of limitations for a tax year has passed.

Supporting documents the IRS reviews include bank statements, 1099 forms, cancelled or substitute checks, payroll records, invoices, credit card statements, general journals, mileage logs, and actual paper receipts. You must also retain documentation supporting deposits which do not reflect income, such as loan documents or contributed capital to a business.

Inadequate Records

If you fail to retain adequate records to support the items claimed on your return(s), the IRS has authority to reconstruct your return(s) with your producible records. You have the burden of proof to dispute their conclusions and produce adequate records. If an audit results with changes, you could end up with assessments for additional taxes, plus penalties and interest.

This information is general in nature and should not used as the final authority. Contact us for further details and professional guidance in identifying specific recordkeeping issues.

Record Retention

Tax returns can generally be audited for up to three years after filing and up to six years if the IRS suspects underreported income. It is wise to keep tax records at least seven years after a return is filed.

Recommended Retention Periods

Bank statements...7 years
Cancelled or substitute checks...7 years
W-2s, 1099s, 1098s ....7 years
Credit card statements & receipts..7 years
Employment tax returns ....7 years
Expense receipts..7 years
Financial statements...Permanent
Inventory records...7 years
Mileage diaries & logs..7 years
Paid invoices..7 years
Tax returns...Permanent
Depreciation schedules.....................................Life of assets + 7 years
Employee records...............................Period of employment + 7 years
Home purchase and
Improvement records...........................Ownership period + 7 years
Investment records................................Ownership period + 7 years
Journal & general ledger.......................Life of business plus + 7 years
Business contracts, minutes
& stock records...Permanent
Real estate records................................Ownership period + 7 years
Business loans & loan payments...7 years
IRA Annual Reports...Permanent