### Tips for Recordkeeping

Tax records should be kept year-round, not hastily assembled just for your annual tax appointment. But which records are important, and how and why do you keep them?

Without tax records, you can lose valuable deductions by forgetting to list expenses on your return or having unsubstantiated items disallowed in the event of an audit.

Good records will help you prepare your tax returns, monitor the progress of your business, prepare your financial statements, keep track of deductions, expenses and documentation for items reported on tax returns.

Generally, returns can be audited up to three years after filing. However, if income is underreported by 25% or more, the IRS can collect underpaid taxes up to six years. There is no time limit if a return was never filed or was fraudulently prepared / filed.

### Another Money-Saver

If your records are organized, we will need less time to review your records. This may translate into lower tax preparation fees.

### Which Records Are Important *

- Records of income
- Expense items, especially work-related expenses
- Home improvements, sales / purchases and refinances
- Investment purchases and sales information
- The basis of inherited property
- Specific use of loan proceeds
- Medical expenses
- Charitable contributions
- Interest and taxes paid
- Records on IRA contributions

### How Should You Keep Your Tax Records *

You should keep your tax records in a manner that is most convenient for you, and that will allow you to give complete information on each item:

- How much?
- What for?
- When?
- Where?
- Why?

* These are suggested Guidelines.
### Recordkeeping for Businesses

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

### What Records *

All businesses should have a permanent set of books and records which details deposits, disbursements and items of adjustment. These records should be retained indefinitely. Permanent records also include those needed to prove the cost basis of depreciable assets.

Supporting documents may be needed to validate the journal entries if your returns are examined by the IRS. The general rule is that supporting documents should be retained at least until the statute of limitations for a tax year has passed (typically three years from filing).

The supporting documents the IRS reviews include bank statements, cancelled checks, payroll records, invoices, mileage logs, etc. You should also retain documents supporting deposits which do not reflect income, such as loan documents. If storage is a problem, consider scanning these documents.

### Which Records Are Important for Businesses *

- Employee compensation records
- Depreciation schedules
- Daily / monthly summary of cash receipts
- Invoices
- Bank deposit slips
- Forms 1099-MISC
- Account statements
- Check register / cancelled checks
- Any document dealing with the purchase/sale/acquisition/depreciation of assets
- Backup files of accounting software (e.g. QuickBooks, Peachtree, etc)

### What Happens if Your Records Are Inadequate *

If you fail to retain adequate records to support the items claimed on your returns, the IRS has authority to reconstruct your income using one of several methods, including but not limited to: estimating increased net worth, reviewing bank records, or estimating the raw materials used in manufacturing. Whatever method the IRS uses, you have the burden of proof if you dispute their estimates. The burden of proof is your responsibility to document entries, deductions and statements made on your tax returns. Without adequate records, proving the IRS estimates wrong may be difficult. You could end up with an assessment for additional taxes, plus penalties and interest.

### How to Keep Records *

Make a list of your records and documents and then establish a written schedule for disposing of those you do not need to keep permanently. For recommended retention periods for various records, refer to the next page. If you have any additional questions about any records or recordkeeping requirements, contact our office.

* These are suggested Guidelines.
How Long Should Records Be Kept? *

Just how long you should keep records is partly a matter of judgment and a combination of state and federal statutes of limitations. Federal returns can be audited for up to three years after filing (six years if under-reported income is involved or indefinitely if a return was never filed or prepared / filed fraudulently). Therefore, all records substantiating tax deductions should be kept at least that long.

Here are recommended retention periods for various records:

<table>
<thead>
<tr>
<th>Records</th>
<th>Retention Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cancelled checks</td>
<td>7 years</td>
</tr>
<tr>
<td>Bank deposit slips</td>
<td>7 years</td>
</tr>
<tr>
<td>Bank statements</td>
<td>7 years</td>
</tr>
<tr>
<td>Tax Returns</td>
<td>Permanent</td>
</tr>
<tr>
<td>Employment tax returns</td>
<td>7 years</td>
</tr>
<tr>
<td>Expense reports / Mileage logs</td>
<td>7 years</td>
</tr>
<tr>
<td>Entertainment records</td>
<td>7 years</td>
</tr>
<tr>
<td>Financial statements</td>
<td>Permanent</td>
</tr>
<tr>
<td>Contracts</td>
<td>Permanent</td>
</tr>
<tr>
<td>Minutes of meetings</td>
<td>Life of company plus 7 years</td>
</tr>
<tr>
<td>Corporate stock records</td>
<td>Permanent</td>
</tr>
<tr>
<td>Employee records</td>
<td>Period of employment plus 7 years</td>
</tr>
<tr>
<td>Depreciation schedules</td>
<td>Life of business plus 7 years</td>
</tr>
<tr>
<td>Real estate records</td>
<td>Permanent</td>
</tr>
<tr>
<td>Journals &amp; general ledger</td>
<td>Life of business plus 7 years</td>
</tr>
<tr>
<td>Inventory records</td>
<td>7 years</td>
</tr>
<tr>
<td>Home improvement records</td>
<td>Ownership period plus 7 years</td>
</tr>
<tr>
<td>Investment records</td>
<td>Ownership period plus 7 years</td>
</tr>
<tr>
<td>Retirement/savings plan statements</td>
<td>1 year to permanent</td>
</tr>
</tbody>
</table>

* These are suggested Guidelines. It is suggested that you customize this schedule to comply with requirements for your business or individual situation. Please note: We do not permanently retain copies of your records beyond the statute of limitations.

Hiram Bobo III, PC
(706) 547-2205