Certified Public Accountants, PC
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Tax Recordkeeping
Save or Shred?

Tax day always seems to be just around the corner, and if you are like many people, your home office is littered with receipts, bills, letters from charities, W-2's, 1099's, and so on. NOW is the time to TAKE CONTROL and get organized!

There are records that you can purge, but others that you must keep. For example, in case of a tax audit, the IRS won't generally accept "My dog ate my receipt" as an excuse. Therefore, you MUST be sure to maintain the proper documentation. This brochure is designed to help guide you in sorting through items to determine if they should be saved or shredded.

Why should I keep records?

In business and in life, it is important to keep good records to help you:

- Have an understanding of your overall financial position
- Monitor the progress of your business
- Prepare business or personal financial statements for your bank or lending institution
- Identify sources of income
- Keep track of deductible expenses
- Prepare your tax returns, or help your CPA or tax preparer
- Support items reported on your tax returns in case of a tax audit
- Provide loved ones with a roadmap to your financial affairs if you were to pass-away or become incapacitated
- Give you a sense of security

Where should I begin?

Some people are “savers” and some are “shredders”. Do you save everything in a shoebox, or do you throw everything away? To find that middle-ground, start a filing system to divide up current files from older ones. Consider using a safe deposit box for permanent documents.

What is the recommended retention period?

Please note that retention periods are calculated based on the number of years from the date the tax return was filed, to the current date. Meaning, if you go on extension and don’t file your 2012 tax return until September 2013, you’ll need to keep all those related documents to support that tax return until September 2020, and we advise keeping the tax return itself permanently.

Which records should be kept permanently?

For Both Businesses & Individuals:

- Contact information for attorney, CPA and financial advisor
- Insurance records (current), accident reports, claims, policies, etc.
- Property related (deeds, mortgages, bills of sale, appraisals, HUD-1, year-end trial balances, depreciation schedules)
- Tax returns and worksheets

For Businesses specifically:

- Audit reports of CPAs
- Capital stock and bond records
- Chart of accounts & journals
- Checks (cancelled, for important purchases)
- Contracts and leases
- Depreciation schedules
- Financial statements
- Minutes books of directors and stockholders
- Trademark registrations, patents & related

For Individuals specifically:

- Adoption records
- Birth and marriage certificates
- Citizenship documentation
- Divorce papers
- Retirement & pension records
- Stock and bond certificates
- Titles for car(s)
- Will, Power of Attorney & healthcare directive (living will)

Burden of proof

Remember, it is your responsibility to prove entries, deductions and statements made on your tax return. Generally, you should keep adequate records to prove your expenses or have sufficient support evidence such as receipts, cancelled checks, or invoices.

Protect your identity

Remember when purging records, to shred all documents with identifiable information such as date of birth, account numbers, social security numbers, Federal ID numbers, financial data, competitive information, etc. to guard against identity theft, comply with business laws and protect our environment.

Other recommended retentions for Businesses:

Accident reports & claims (settled cases)	7 years
Annual reports (old) & proxy statements	1 year
Bank statements & reconciliations	2 years
Checks (cancelled for "un-important" purchases)	1 year
Employee personnel records (after terminations)	3 years
Insurance policies (expired)	3 years
Invoices from customers	7 years
Invoices from vendors	7 years
Payroll records & summaries	7 years
Sales records	7 years

Other recommended retentions for Individuals:

Brokerage statements	3 years
Documentation for expenses claimed (bank statements & cancelled checks)	3 years
Information on cars, boats, appliances and electronics you no longer own	1 year
Insurance policies (expired)	3 years
Pay stubs (after checking against Form W-2)	1 year
Tax Related: • Forms W-2, 1099, K-1, etc. • Letters from charities documenting donations • Receipts, sales slips & invoices	3 years

How long should I keep tax records?

It depends. Generally, you must keep records that support an item of income or deductions on a tax return until the *statute of limitations* for that tax return runs out. The statute of limitations is the period of time in which you can amend your tax return to claim a credit or refund, or that the IRS can assess additional tax. However, we suggest you keep copies of your tax returns permanently. They can assist in preparing future returns and making computations if you file an amended return.

- General rule - tax records should be kept for **3 years** (from date tax return filed)
- If the IRS suspects that you did not report income, that you should have reported, and it is more than 25% of the gross income shown on your return, they may request records back **6 years.**
- If the IRS believes you did not file a tax return required, they may request records back **indefinitely.**
- If the IRS suspects fraud, they may request records back **indefinitely.**
- If the records are connected to an asset, keep records until the statue expires for the year in which you dispose of the property in a taxable disposition.

Contact us

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