

Which Records are Important?

- Records of income received
- Expense deducted on tax returns
- Home purchases, improvements and sales
- Investment purchases and sales information
- The tax basis of gifted and inherited property
- Specific uses of loan proceeds
- Medical expenses
- Charitable contributions
- Interest and taxes paid
- Records of nondeductible IRA contributions

How should you keep your tax records? Any way that is convenient for you that will allow you to give complete information on each item: How much? What for? When? Where? Why?

Can Records Be Stored Electronically?

Yes. The IRS allows use of electronic records to support your income and deductions. These records must be in a format that maintains their integrity such as a PDF or other imaged files and not in Word or other easily editable files. The system they are maintained on should also record and maintain the date the file is created.

Electronic files are easy to back-up, require little storage space and can be produced as scans on most copiers and scanners.

In the event of an audit, they do not have to be printed and can be provided in their electronic format to the auditor.



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Recordkeeping Guide

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TAX RECORDKEEPING GUIDE



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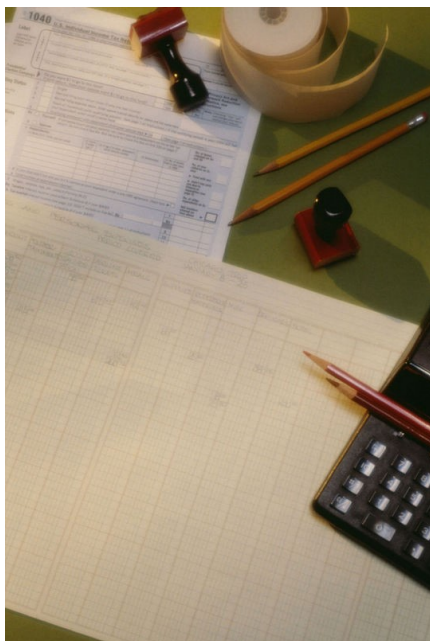
Tips for Recordkeeping

Tax records should be kept year-round, not hastily assembled just for your annual tax appointment. But which records are important and how/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 if you're audited.

Generally, returns can be audited up to three years after filing. However, if income is under reported by more than 25%, the Internal Revenue Service can collect underpaid taxes up to six years later. In other words, you need good tax records to verify the information you report on your tax returns.

Another money-saver: If your records are organized your accountant will need less time to review your records. This may translate to lower tax preparation fees.



Recordkeeping for Businesses

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

What records? All businesses should have a permanent set of books which summarize individual deposits, disbursements, and items of adjustment. These records should be retained indefinitely. Permanent records also include those needed to prove the basis (cost) 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.

The supporting documents the IRS reviews include but are not limited to; bank statements, cancelled or substitute checks, payroll records, invoices, credit card statements, paid bills, auto and entertainment logs. You should also retain documents supporting deposits which do not reflect income, such as loan documents.

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 the authority to reconstruct your income using one of several methods, including estimating increased net worth, looking at bank records, or estimating the raw materials used in manufacture. Whatever method the IRS uses, you have the burden of proof if you dispute their estimate. Without adequate records, arguing that IRS estimates incorrectly is difficult, at best. You could end up with an assessment for additional taxes plus penalties and interest.

How Long Should Records Be Kept?

How long you should keep records is partly a matter of judgment along with a combination of state and federal statutes of limitations. Federal returns can be audited for up to three years after filing (six years if underreported income is involved), so all records substantiating tax deductions should be kept at least that long.

Here are some recommended retention periods for various records:

<u>Records</u>	<u>Retention Period</u>
Canceled or Substitute Checks	7 years
Credit Card Receipts	7 years
Paid Invoices	7 years
Bank Deposit Slips	7 years
Bank Statements	7 years
Tax Returns (generally)	7 years
Sales Tax Records & Returns	7 years
Employment Tax Returns	7 years
Expense Records	7 years
Financial Statements	Permanent
Contracts	Permanent
Minutes of Meetings	Life of Company +7 years
Corporate Stock Records	Permanent
Depreciation Schedules	Life of Assets +7 years
Real Estate Records	Ownership Period +7 years
Journal & General Ledgers	Life of Business +7 years
Inventory Records	7 years
Investment Records	Ownership Period +7 years
Home Purchase & Improvement Records	Ownership Period +7 years
Insurance Policies	Ownership Period +7 years