James M. Honsvall, Ltd.
Certified Public Accountant

TAX GUIDE

for recordkeeping

INDIVIDUAL recordkeeping

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

Here's a list of the most common records you need to keep:

- Records of income received.
- Expense items, especially work-related expenses.
- Home improvements, sales, and refinances.
- Investment purchases and sales information.
- The tax basis of gifted and inherited property.
- Specific uses of loan proceeds.
- Significant, unreimbursed medical expenses.
- Charitable contributions.
- Interest and taxes paid.
- Records on 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? 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. In other words, you need good records to verify what you report on your tax returns.

BUSINESS recordkeeping

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

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.

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 estimating increased net worth, looking at bank records, or estimating the raw materials used in manufacturing. Without adequate records, proving the IRS estimates wrong is difficult. You could end up with an assessment for additional taxes, plus penalties and interest.

RECORD RETENTION – How long should you keep records?

Good recordkeeping can cut your taxes and make your financial life easier.

How long to keep records is a combination of judgment and state and federal statutes of limitations. Since federal 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's wise to keep tax records at least seven years after a return is filed. Requirements for records kept electronically are the same as for paper records. Generally, follow the recommended retention periods given below.

For additional information and recordkeeping suggestions which will fit your financial world, contact our office.

Recommended Retention Periods

Record	Retention period
Bank deposit slips	7 years
Bank statements	7 years
Cancelled or substitute checks	7 years
Contracts	Permanent
Corporate stock records	Permanent
Credit card receipts	7 years
Employment tax returns	7 years
Expense records	7 years
Financial statements	Permanent
Inventory records	7 years
Paid invoices	7 years
Tax returns (generally)	7 years
Depreciation schedules	Life of assets plus 7 years
Employee records	Period of employment plus 7 years
Home purchase and improvement records	Ownership period plus 7 years
Investment records	Ownership period plus 7 years
Journal & general ledger	Life of business plus 7 years
Minutes of meetings	Life of company plus 7 years
Real estate records	Ownership period plus 7 years

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1815 Northwestern Avenue S., Suite 2 • Stillwater, MN 55082
(651) 439-4424 • FAX (651) 439-4434
james@honsvallcpa.com • www.honsvallcpa.com