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Keeping Business Tax Records

The period of time a business must keep records and the types of records required varies according to the statutory requirements of the particular government or agency involved. The five main federal agencies are: Internal Revenue Service, US Department of Labor, Wage and Hour Division, Immigration and Naturalization, Social Security Administration, and Equal Employment Opportunity Commission. In addition, there may be selective state agencies that have their own particular requirements. However, the tendency is such that the federal agencies usually have more stringent requirements, so we will focus on them.

Keep in mind, however, that various civil and criminal actions brought against a business do not always follow these statutory time requirements. That means nothing short of saving every scrap of business paper and record forever will absolutely provide a buffer from any and all challenges. Nevertheless, the majority of situations do tend to follow government agency time requirements. Since most businesses cannot possibly retain every document forever, they therefore choose to follow the federal agency requirements instead.

Before suggestions are made as to how long to keep different types of business records for income tax purposes, a brief synopsis of each of the major federal agencies and what they cover is in order. Here's a quick rundown:

Internal Revenue Service: This agency is the most well-known. It handles all pertinent matters relating to federal income and estate tax returns. Thus, any information filed on any of these types of returns must be retained for the IRS statutory period which will be detailed shortly.

US Department of Labor: Employee wage matters, working conditions, ERISA rules, and other personnel matters fall under the jurisdiction of this agency. Normal time requirements for retaining these types of records is 3 years.

Immigration and Naturalization: This agency oversees the employment rules and regulations concerning the use of non US citizens, and verification of work eligibility. The business must retain the I-9 employment verification form and employee records for 3 years after the date of hire.

Social Security Administration: The business records for employee's earnings as they relate to social benefits available from this agency are regulated here. The statutory period is generally 3 years beyond the year of payment to employees and/or filing of appropriate returns.

Equal Employment Opportunity Commission: The EEOC handles personnel matters as they apply to employee's rights on the job. Thus, the personnel file related to these matters (such as pay rates, terminations, promotions, harassment complaints, etc.) should be kept for at least 3 years from the date of an employee's termination.

Since the biggest concern for most businesses is what the IRS requires for specific types of records, detailed below is a suggested breakout of the type of record, and the minimum time to retain them.



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Please be advised that the normal statute of limitations is being used. It may be longer in the situation where income or expenses are being distorted, such that it materially affects your tax liability (usually by 25% or more). In that case, the period is 6 years. Similarly, if fraud is involved, or failure to file, the statute of limitations doesn't expire.

Tips On Physically Keeping Records

First, wherever possible, try to have duplicates of records in two separate physical locations to avoid loss due to catastrophe like fire or flood. If this isn't possible or practical, try to keep them safe from these possibilities in a fire proof or flood proof environment. At the very least, protect the permanent or quasi permanent records such as contracts, insurance policies, real estate records, etc.

In case of IRS audit, the required proof for deductions can be both the cancelled checks and invoices, so save both, not just one. This is especially true if payments were made to individuals, not businesses or corporations. Without an invoice, the IRS could conceivably deny the deduction by taking the position that a check made out to an individual is a gift, hence not deductible.

You should always make sure someone you trust knows where all the important records, papers, keys, and necessary releases are located should something happen to you.

Hopefully, this will provide you with some guidance. If you are ever in doubt as to how long to keep any specific record for tax purposes, it is always a good idea to check with your tax professional first before tossing it. A good rule is: When in doubt, don't throw it out.



2000 HOLDING PERIOD FOR VARIOUS TYPES OF RECORDS

<u>ITEM</u>	<u>HOLDING PERIOD FROM FILING DATE</u>
Tax Returns	Permanent
Cancelled Checks	3 years
Bank Deposit Slips	3 years
Bank Statements	6 years
Travel & Entertainment Reports	3 years
W-2's, 1099's, 1098's	6 years
Proof Of Tax Return Deductions	6 years
Credit Card Slips, Statements	3 years
Inventory Records	6 years
Journals, Ledgers	3 years
Minutes Of Meetings	Life Of Organization
Depreciation Schedules	Life Of Organization
Sales, Purchase Invoices	6 years
Corporate Stock Records	Permanent
Financial Statements	6 years
Retirement Account Information	Permanent
Employee Payroll Records	3 years beyond the year of termination of employee
Financial/Insurance Contracts	6 years beyond final year of contract
Capital Expenditures/Improvements	3 years beyond final year property is disposed of
Security Sales/Purchase Slips	3 years beyond the year the asset was sold
Closing Papers On Properties	3 years beyond the year the property is sold