

## CLIENT SHRED FEST

SPONSORED BY *WHITCOMB & HESS*

Friday, April 23, 2010

9:00 a.m. - 12:00 p.m. in our Parking Lot

- Protect your family and business from identity theft.
- Bring in your old documents to be shredded.
- InfoShred will shred your old information on-site, in a safe and secure manner.
- Recommended Record Retention periods (*on reverse side*)
- Call our office if you have questions or will have more than 5 boxes.

In-kind donations will be accepted in support of **United Way**.



**T**ax 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?

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 underreported by more than 25%, the Internal Revenue Service can collect underpaid taxes up to six years later. In other words, you need good records to verify what you report on your tax returns.



## INDIVIDUAL recordkeeping

Which records are important? 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?



## 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.

The supporting documents the IRS reviews include bank statements, cancelled or substitute checks, payroll records, invoices, and the like. 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 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, proving the IRS estimates wrong is difficult, at best. You could end up with an assessment for additional taxes, plus penalties and interest.



*For additional information and recordkeeping suggestions which will fit your financial world, call us.*

## RECORD retention

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 underreported income is involved), so all records substantiating tax deductions should be kept at least that long.

### Recommended Retention Periods

- 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 . . . . . Ownership period improvement records 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

Requirements for computer-maintained records are generally the same as for manually kept records.