Record Retention

This may be a good time to review how you organize and maintain your tax records in order to locate and substantiate the information if the IRS questions entries you have submitted. In general, you are required to keep tax records "as long as they are material" to the administration of the tax law, but here are some practical suggestions for record retention.

Permanent - Copies of tax returns with supporting schedules, tax and legal correspondence, audit reports, general ledger and journals, financial statements, contracts and leases, real estate records, corporate minutes and stock records.

6-years starting from the returns' due date or date filed, whichever is later - Bank statements and deposit slips, sales records and journals, employee expense reports, personal investment records, canceled checks, paid vendor invoices, inventory records (permanent if LIFO is used), IRS forms W-2 and 1099, appointment books, alimony and child support agreements, police reports of theft, charge card vouchers, diary of gambling winning and losses. Proof of rollovers, conversion to Roth IRAs, contributions to and withdrawals from individual retirement accounts and retirement plans.

In addition major assets require taxpayers to keep certain records as proof of cost basis:

For stock: cost, brokerage and mutual fund annual reports and records of stock dividends, reinvested dividends and stock splits.

For rental real estate or other depreciable property: date acquired, cost improvements and depreciation claimed.

For assets given to you: a record of the donor's basis.

For assets inherited: inheritance and estate tax returns or other proof of value at the time of the inheritance.

For your home: a record of purchase price, closing statement and cost of improvements on all your homes. NOTE: These records are also necessary to prove the home's basis for such things as a casualty deduction, rental of part of it or use of some of its space as an office.

As you well know, the record-keeping can be a major administrative task and if you do not have appropriate records, the IRS can disallow deductions and claim that you've had unreported income. While most clients try to handle tax record-keeping themselves, some businesses and individual prefer that we handle it for them throughout the year. They find that this is an effective way of freeing up time as well as insuring that all of the necessary documentation is retained for the time it is needed.