Record Retention Guidelines

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Taxpayers who are subject to the federal income tax or who are required to file information returns with the Internal Revenue Service, must keep accurate records. In the event your return is audited, the auditor will expect you to substantiate the revenue and expenses reported on the return with proper accounting documentation. Generally, no penalty is imposed for failure to keep the required records. However, in case of a dispute with the IRS, the burden of proof is on the taxpayer. Incomplete or nonexistent records may result in interest, penalties and loss of legitimate deductions.

This guide provides suggested retention times for specific types of records. It is prepared based on information published by the American Institute of Certified Public Accountants. However, it is not all inclusive. For questions about specific applications, consult with your Accountant or Tax Preparer.

Permanently

Audit Records & Reports

- Canceled Checks for Taxes, Property Purchases and Contracts
- Cash Books
- Charts of Accounts
- Contracts & Leases (in effect)
- Copyrights, Patents and Related Papers
- Corporate Stock and Bond Records, Charters, Bylaws, Corporate Meeting Minute Books, Transfer Registers, Options, etc.
- Current Insurance Records, Claims, Policies, etc.
- Financial Statements (year-end. Others are optional)
- Fixed Asset Records and Depreciation Records and Schedules
- General Ledger and Journals
- Income and other Tax Returns & Supporting Documentation
- Real Estate Records (Deeds, Mortgages, Appraisals by Outside Appraisers, Bills of Sale, etc.)
- Retirement and Pension Records
- Tax and Legal Correspondence

Seven Years *

- Accident Reports / Settled Insurance Claims
- Canceled Checks (exception noted above)
- Canceled Stock & Bond Certificates and Expired Option Records
- Employee Earnings Summaries and Payroll / Personnel Records
- Expense Reports, Analyses, Distribution Schedules and Payment Vouchers
- Expired Contracts, Mortgages, Notes and Leases
- Garnishments
- Group Disability and other Insurance Safety Reports
- Inventory Records of Products, Materials and Supplies
- Invoices to Customers and from Suppliers
- IRS Form 8300: Report on Cash Transactions Over $10,000 Received in a Trade or Business
- Plant Cost Ledgers and other Cost Accounting Records and Reports
- Purchase Orders, Shipping & Receiving records and related correspondence
- Sales Records
- Scrap and Salvage Ledgers
- Subsidiary Ledgers and Schedules for Accounts and Notes Payable and Accounts and Notes Receivable
- Voucher Registers and Schedules
- Withholding Tax Statements

Three Years *

- Bank Statements and Deposit Slips
- Employment Applications
- Expired Insurance Policies
- Internal Audit Reports
- Internal Reports (misc. financial)
- Payroll Time Sheets or Cards
- Petty Cash and Cash Paid-Out Vouchers
- Physical Inventory Tags and Control Records
- Records in support of Customer Guarantees and Warranties
- Sales Commission Reports

Two Years *

- Bank Reconciliations
- Duplicate Deposit Slips
- General Business Correspondence

Other Miscellaneous Records

Real and Personal Property

Three years beyond the time the property is in use.

Passive Losses

If a taxpayer is unable to currently deduct a loss from a passive activity, they are permitted to carry forward the loss indefinitely until the loss is used to offset passive income or the passive activity is disposed of in a taxable transaction. Carry forward losses are computed on worksheets provided by the IRS and these worksheets should be retained until at least three years after the carry forward losses are used.

Nondeductible IRA Contributions

Taxpayers who make non-deductible IRA contributions are required by the IRS to retain all the tax records that pertain to such contributions until the taxpayer's IRA's are fully distributed. These records include form 8606, Forms 1040 or 1040A, Form 5498 and forms 1099-R or W-2P.

Principal Residence

Records verifying a taxpayer's basis in his or her principal residence must be kept until he or she is sure they will no longer be an issue. Such records pertain to original cost, capital improvements and Form 2119 - Sale or Exchange of Principal Residence.

* Retention time is measured from the later of tax return due date or filing date, plus any amendment or extension date