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How Long Should You Keep Your Records?

This document was prepared to give you guidelines for record retention. Refer to the attached chart to check your records retention policy and ensure that your policies are in-line with IRS guidelines.

The *Internal Revenue Code* at Section 6001-1(e) supplies the general rule that books and records must be kept as long as the information may be material in the administration of the income tax laws. For practical purposes, this means that books and records must be kept as long as there is a possibility that a taxpayer could file an amended return or claim for refund, or the Internal Revenue Service could audit the return or assess additional tax.

Quite frankly, the ability of the IRS to audit a return is based on various statutes of limitation. A grossly oversimplified version of the statute of limitation rules would include:

1. Generally, the IRS has three years after a return is filed to assess additional tax.
2. However, if there is an omission of more than 25% of gross income from the return, additional tax can be assessed at any time within six years of when the return is filed.
3. Additionally, if no return is filed or the return is false or fraudulent or if there is a willful attempt to evade tax, there is **no limitation period** on the assessment of additional taxes.

As a result of these rules, books and records relating to income tax returns should be kept a minimum of three years from the date the return is filed. However, it would be exceedingly prudent to keep records relating to gross income for at least six years to head off any IRS claim that more than 25% of gross income was omitted.

In reality, tax returns should be kept forever, if for no other reason than to provide proof that they were filed. In addition, the basic underlying financial records, such as annual financial statements and reconciliations to tax returns, should be kept indefinitely. This would help overcome any IRS attempt to assert that tax returns were false, fraudulent or that there was a willful attempt to evade taxes.

Clearly, the policies and procedures that you devise for your organization may require specific input. We will be happy to provide you further information. Call us today.

Recommended Records Retention Schedule

Types of Records	3 Yrs.	5 Yrs.	7 Yrs.	10 Yrs.	Perm
Accounts payable ledgers & reports			✓		
Accounts receivable ledgers & reports			✓		
Company policy & practice manuals					✓
Audit reports					✓
Bank statements			✓		
Bank reconciliations			✓		
Canceled checks				✓	
Chart of accounts					✓
Contracts & leases:					
Expired				✓	
Still in effect					✓
Correspondence:					
Accounting		✓			
Legal & important matters only					✓
Tax					✓
Depreciation schedules					✓
Election records					✓
Employee personnel records (after termination)			✓		
Employee personnel records (current)					✓
Employee W-2 and payroll tax returns					✓
Employment applications	✓				
Financial records/schedules used in preparation of tax returns (from date return filed)					✓
Financial statements (year-end; other months optional)					✓
General ledgers; year-end trial balances					✓
Insurance policies (including expired policies)					✓
Inventory Records					✓
Invoices:					
From vendors			✓		
To customers			✓		
Minutes of director & committee meetings (incl. bylaws and charter)					✓
Ownership of property, real estate, patents, trademarks, copyrighted documents (from date ownership ends)					✓
Payroll records & summaries			✓		
Pension documents & records					✓
Petty cash vouchers			✓		
Purchase orders			✓		
Receipt records (sales, etc.)					✓
Subsidiary ledgers					✓
Tax returns					✓
Time sheets			✓		
Vouchers for payments to employees for reimbursements, allowances, etc.			✓		