

REYNOLDS & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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RETAINING INCOME TAX RECORDS

Dear Client,

Retaining and storing your income tax records is an important final step of your tax filing responsibility. This letter is a refresher on the rules for keeping your tax records, along with some information on storage options. A record retention schedule is also included for your reference.

When determining how long to keep most of your income tax records, we look at the time frame over which the IRS can audit a return and assess a tax deficiency or you can file an amended return. For most taxpayers, this period is three years from the original due date of the return or the date the return is filed, if later. For example, if you filed your 2016 Form 1040 on or before April 15, 2017, the IRS has until April 15, 2020, to audit the return and assess a deficiency. However, if a return includes a substantial understatement of income, which is defined as omitting income exceeding 25% of the gross amount reported on the return, the status of limitations period is extended to six years.

A good rule of thumb for keeping tax records is to add a year to the IRS statute of limitations period. Using this approach, you should keep your income tax records for a minimum of four years, but it may be more prudent to retain them for seven years, which is what the IRS informally recommends. State tax rules must also be considered, but holding records long enough for IRS purposes will normally suffice for federal and state tax purposes, assuming the federal and state returns were filed at the same time.

Certain tax records, however, should be kept much longer than described above and some, indefinitely. Records substantiating the cost basis of property that could eventually be sold, such as investment property and business fixed assets, should be retained based on the record retention period for the year in which the property is sold. Tax returns, IRS and state audit reports, and business ledgers and financial statements are examples of the types of records you should normally retain indefinitely.

Keep in mind that there may be non-tax reasons to keep certain tax records beyond the time needed for tax purposes. This might include documents such as insurance policies, leases, real estate closing statements, employment records, and other legal documents. Your attorney can provide additional guidance.

It's also important to know that the IRS permits taxpayers to store certain tax documents electronically. Although the rules are aimed primarily at businesses and sole proprietors, they presumably apply to other individuals as well. The rules permit taxpayers to convert paper documents to electronic images and maintain only the electronic files. The paper documents can then be destroyed. However, certain requirements must be met to take advantage of an electronic storage system.

We hope this brief overview helps you understand the income tax record retention rules. If you have any questions regarding your specific situation or you would like to discuss these rules in more detail, please give us a call.

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"PERSONAL" RECORD RETENTION SCHEDULE

Description	# of Years
Accident reports and claims	7
Car records	Until car is sold
CPA audit reports	Permanent
Credit card receipts	Until receipt is verified on statement
Credit card statements	3
Depreciation schedules and other capital asset records	3 years after tax life of asset
Important correspondence	Permanent
Income tax payment checks	Permanent
Income tax returns	Permanent
Insurance policies	Life of the policy
Investment trade confirmations	Permanent
Legal records	Permanent
Medical bills (if tax related)	7
Medical bills (in case of insurance disputes)	3
Mortgages/deed/leases	6 years beyond agreement
Other bills	Until payment is verified on next bill
Other tax related bills	7
Pay stubs	Until reconciled with W-2
Property records/improvement receipts	Permanent
Retirement and pension records	Permanent
Sales receipts	7
Sales receipts for items under warranty	Life of the warranty
Stock and bond records	6 years beyond selling
Supporting documents for tax returns	7
Utility records	3
Wage garnishments	7
Warranties	Life of the product

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"BUSINESS" RECORD RETENTION SCHEDULE

Description	# of Years	Description	# of Years
Accident reports, claims	7	Invoices to customers	7
Accounts payable ledgers and schedules	7	IRS revenue agent reports	Permanent
Accounts receivable ledgers and schedules	7	Journals	Permanent
Audit reports from CPAs/Accountants	Permanent	Legal records, correspondence and other important matters	Permanent
Bank statements and reconciliations	7	Minutes books of directors and stockholders	Permanent
Cancelled checks	7	Mortgages, bills of sale	Permanent
Cancelled checks for important payments (especially taxes)	Permanent	Notes receivable ledgers, schedules	7
Cancelled stock and bond certificates	7	Payroll records and summaries, including payment to pensioners	7
Cash books, charts of accounts	Permanent	Petty cash vouchers	3
Contracts, leases currently in effect	Permanent	Physical inventory tags	3
Corporate documents (incorporation, charter, by-laws, etc.)	Permanent	Plant cost ledgers	7
Correspondence with customers and vendors	1	Property appraisals by outside appraisers	Permanent
Deeds	Permanent	Property records	Permanent
Depreciation schedules	Permanent	Purchase orders (other than purchasing dept. copy)	1
Documents substantiating fixed asset additions	Permanent	Purchasing department copies of purchase orders	7
Duplicate deposit slips	1	Receiving sheets	1
Employee personnel records (after termination)	3	Records related to net operating losses (NOL's)	7
Employment applications	3	Requisitions	1
Employment tax records	7	Retirement and pension records	Permanent
Expense analysis and expense distribution schedules	7	Sales records	7
Expired contracts, leases	7	Savings bond registration records of employees	3
Expired insurance policies	3	Stenographer's notebooks	1
Expired option records	7	Stockroom withdrawal forms	1
Financial statements (year end)	Permanent	Subsidiary ledgers	7
General and private ledgers, year end trial balances	Permanent	Tax returns and worksheets	Permanent
General correspondence	3	Time books	7
Insurance records, current accident reports, claims, policies	Permanent	Time cards for hourly employees	3
Internal audit reports	3	Trademark and patent registrations	Permanent
Internal reports	3	Travel and entertainment records	7
Inventories of products, materials, supplies	7	Voucher register, schedules	7
Investment trade confirmations	Permanent	Vouchers for payments to vendors, employees, etc.	7