

How long should I keep my records?

Good records help you monitor the progress of your business, prepare your financial statements, identify source of receipts, keep track of deductible expenses, prepare your tax returns, and support items reported on these returns.

You may choose any recordkeeping system suited to your business that clearly shows your income and expenses. Except in a few case, the law does not require any special kind of records. However, the business you are in affects the type of records you need to keep for federal tax purposes.

[Click here to see how CD Tax can help!](#)

Burden of Proof

The responsibility to prove entries, deductions, and statements made on your tax returns is known as the burden of proof. You must be able to prove (substantiate) certain elements of expenses to deduct them. Generally, taxpayers meet their burden of proof by having the information and receipts (where needed) for the expenses. You should keep adequate records to prove your expenses or have sufficient evidence that will support your own statement. You generally must have documentary evidence, such as receipts, canceled checks, or bills, to support your expenses. Additional evidence is required for travel, entertainment, gifts, and auto expenses.

No proof? The IRS will disallow the expense and you could be responsible for more tax liability.

How long should I keep records?

We suggest you keep your records **FOREVER!** However, the length of time you should keep documents depends on the action, expense, or event the document records. You must keep your records as long as they may be needed to prove the income or deductions on a tax return.

Note: Keep copies of your filed tax returns. They help in preparing future tax returns and making computations if you file an amended return.

The period of limitations is the period of time in which you can amend your tax return to claim a credit or refund, or that the IRS can assess additional tax. The below information contains the periods of limitations that apply to income tax returns. Unless otherwise stated, the years refer to the period after the return was filed. Returns filed before the due date are treated as filed on the due date.

	If You...	Then the Period is...
1	Owe additional tax and (2), (3), and (4) do not apply to you	3 years
2	Do not report income that you should and it is more than 25% of the gross income shown on your return	6 years
3	File a fraudulent Return	No Limit
4	Do not file a return	No Limit

		Later of 3 years or 2 years after tax was paid, whichever is later
5	File a claim for credit or refund after you file your return	
6	File a claim for a loss from worthless securities	7 years
7	Employment Tax Records	4 years after the date that the tax becomes due or is paid, whichever is later

Basic Records

Basic records are documents that everybody should keep. These are the records that prove your income and expenses. If you own a home or investments, your basic records should contain documents related to those items. Table 1 lists documents you should keep as basic records. Following Table 1 are examples of information you can get from these records.

Income - Your income may include wages, dividends, interest, and partnership or S corporation distributions. Your records also can prove that certain amounts are not taxable, such as tax-exempt interest.

- Form(s) W-2
- Form(s) 1099
- Bank Statements
- Brokerage Statements
- Form(s) K-1

Expenses - Your deductions may include alimony, charitable contributions, mortgage interest, and real estate taxes. You may also have child care expenses for which you can claim a credit.

- Sales Slips
- Invoices
- Receipts
- Canceled Checks or Other Proof of Payment
- Written communications from Qualified Charities

Home - Your basic records should enable you to determine the basis or adjusted basis of your home. You need this information to determine if you have a gain or loss when you sell your home or to figure depreciation if you use part of your home for business purposes or for rent. Your records should show the purchase price, settlement or closing costs, and the cost of any improvements. They may also show any casualty losses deducted and insurance reimbursements for casualty losses. Your records should also include a copy of Form 2119, Sale of Your Home, if you sold your previous home before May 7, 1997, and postponed tax on the gain from that sale. When you sell your home, your records should show the sales price and any selling expenses, such as commissions.

- Closing Statements
- Purchase and Sales Invoices
- Proof of Payment
- Insurance Records
- Receipts for improvement costs

Investments - Your basic records should enable you to determine your basis in an investment and whether you have a gain or loss when you sell it. Investments include stocks, bonds, and mutual funds. Your records

should show the purchase price, sales price, and commissions. They may also show any reinvested dividends, stock splits and dividends, load charges, and original issue discount (OID).

- Brokerage Statements
- Mutual Fund Statements
- Form(s) 1099
- Form(s) 2439
- Stock Trade Confirmations (Purchased or Sold)

For more details regarding Recordkeeping visit the IRS website at <http://www.irs.gov/businesses/small/article/0,,id=98575,00.html> or [Click Here to contact CD Tax](#)

How can CD Tax & Financial, LLC help you?

Step into the electronic world and go paperless! We provide our clients with a couple different services to help you maintain good records and dispose of them properly.

Converting Paper into Electronic Records:

We can help you by offering to turn your paper records into electronic records. We can image previous year's tax returns and supporting documents, settlement statements, business or employment records, and anything else you can think of! We will help you maintain good records so you are prepared for anything that comes up! We will image and label the records in PDF format and provide you a copy on a CD or DVD. We also keep a copy of all the electronic records we make forever in your file within CD Tax & Financial's eFile Cabinet.

Disposing of Records:

NEVER JUST THROW AWAY FINANCIAL RECORDS! This is the easiest way to have your identity stolen. You must shred anything that has personal information on it. If you need help shredding your records please contact our office. We have services to provide you that safely dispose of records. For a fee we can shred any documents for you.

A small charge may apply; contact our office for more information!

[Click Here to contact CD Tax](#)