Recordkeeping

Imagine you've been selected by the IRS for an audit. Do you have the proper documentation to support your income and deductions? What does the IRS look for to validate your claimed income, deductions or tax credits? A little work now can mean little or no headaches later should you need to defend your tax return.

Generally, you need to consider three things when defining the record keeping requirements for the Internal Revenue Service.

1. **What Records to Keep**
2. **How Long to Keep Records**
3. **What is Required as Proof**

1. What Records to Keep

The requirements of what to keep vary depending on the area under review by the IRS. To assist you in keeping good records, please review the *Specific Retention Requirements* chart. The chart outlines specific records needed for each area of your tax return.

2. How Long to Keep Records

Per the IRS, "You must keep your records as long as they are important for any federal tax law." Usually this means the later of:

3 years from the date your return is filed

OR

2 years from the date the tax is paid

OR

6 years after the return is filed if income is under reported by more than 25%

OR

Indefinitely, if you failed to file a return or the return is false or fraudulent.

TAXSAVINGS Tips:

- ✓ If you file your return early (prior to April 15th) the IRS still uses April 15th as the filing date.
- ✓ If in doubt, keep all your 1040s and supporting schedules indefinitely.

Exceptions

Make sure you keep your return for a longer period of time for two reasons:

1. **Valuation of Property.** You will need to keep returns AND supporting proof of expenses to determine the value of property you own and then later sell. Common examples are stocks and your home. Make sure all purchases and selling documents are retained. Keep track of all expenditures that add to the value of your property as they will be used to help reduce any potential capital gains when you sell.
2. **IRA and Retirement plan information.** Keep all records relating to IRAs and any pre-tax contributions to retirement plans such as 401 (k)s. This is especially important if you contributed some funds to your plan in after-tax dollars. When you take the funds out at a later date you will need to prove that you have already paid taxes on the funds. Keep theses records until all the funds have been distributed.

3. What is Required As Proof

You've kept your records for the right time frame, but the IRS says you must prove your claimed deduction. The trick here is that "PROOF" has a sliding definition depending upon what is being reviewed.

The Basics

Generally, proof of payment is a canceled check or cash receipt. If neither is available, an account statement is often acceptable. To be adequate proof, the following must be clearly shown:

- ✓ Amount
- ✓ Date of Payment
- ✓ Who the Payment was made to (payee)
- ✓ Purpose of Payment

Specific Retention Requirements

Adoption:	Bills, canceled checks, legal agreements, receipts
Child Care:	Bills, canceled checks, statements, receipts, mileage log
Mileage Log:	Date, miles driven, to/from destinations, purpose, PLUS; expenses for tolls, parking fees, taxi and bus fare
Interest:	Statements, notes, canceled checks, Form 1098 (mortgage) or Form 1099 (interest and dividends)
Taxes:	Form W-2, canceled checks, statements
Miscellaneous:	Receipts, canceled checks, statements.

Charitable Contributions: Cash Donation

Amount	*Required Proof*
less than $250	Canceled Check and Receipt from Charity or bank statement
more than $250	Sames as above PLUS charity acknowledgment or payroll records

Charitable Contributions: Donation of Property
(in good or better condition)

Amount	*Required Proof*
less than $250	Receipt from charity with date; location; name; and property description PLUS written record of each item donated
$250 - $500	Above PLUS acknowledgment from the charity
$500 - $5,000	All of the PLUS additional records PLUS file Form 8283
$5,0001+	All of the above PLUS substantiation
Vehicles:	Statement from charity (Form 1098C or equivalent) that shows the value of your donation.

Common Questions & Answers

Q. When is a credit card transaction deemed tax deductible? When the transaction is made or when you pay the credit card bill? What proof is required?

Credit card transactions are tax deductible when the transaction is made. Example: You make a contribution to the Boy Scouts using a credit card on December 31st. You pay the credit card bill on January 15th. The contribution can be deducted in the year the transaction was conducted, not when the credit card bill was paid. Your credit card statement is then used as proof of the transaction along with any receipts.

Q. My bank does not return canceled checks, can the duplicate copy be used?

Yes, but only in conjunction with the bank statement showing the checks clearing. You may also use a copy of a paid invoice or statement. In a pinch, often you can get copies of canceled checks from your bank for a fee.

Q. Should I keep track of non-payroll deposits in my savings account?

Yes! If you are audited, the IRS will often look into your bank accounts and ask for explanations of any deposits over and above your claimed income. Often these deposits are gifts, reimbursements for employee expenses or simply transfers between accounts.

What Should I Save?

Key Recordkeeping Rules

- ✓ Tax Returns
- ✓ W-2s
- ✓ 1099s
- ✓ Home Mortgage
- ✓ Stock Sale

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