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Recordkeeping

Well-organized records make it easier to prepare a tax return and help provide answers if your return is selected for examination, or to prepare a response if you receive a notice from the Internal Revenue Service.

We recommend that you maintain a copy of your income tax returns for every year that you file a tax return. You may shred the supporting documents (W-2's, 1099's, receipts, cancelled checks, etc.) seven years from when the return was due.

The Internal Revenue Service has published the following guidelines:

- Records such as receipts, canceled checks, and other documents that support an item of income or a deduction, or a credit appearing on a return must be kept so long as they may become material in the administration of any internal revenue law, which generally will be until the period of limitation expires for that return. For assessment of tax you owe, this generally is 3 years from the date you filed the return. Returns filed before the due date are treated as filed on the due date.

- There is no period of limitations to assess tax when a return is fraudulent or when no return is filed. If income that you should have reported is not reported, and it is more than 25% of the gross income shown on the return, the time to assess is 6 years from when the return is filed. For filing a claim for credit or refund, the period to make the claim generally is 3 years from the date the original return was filed (or the due date of filing the return if the return was filed before that date), or 2 years from the date the tax was paid, whichever is later. For filing a claim for an overpayment resulting from a bad debt deduction or a loss from worthless securities the time to make the claim is 7 years from when the return was due.

- If you have employees, you must keep all your employment tax records for at least 4 years after the tax becomes due or is paid, whichever is later. For more information, see *Publication 15*, (Circular E), Employer's Tax Guide.

- If you are in business, there is no particular method of bookkeeping you must use. However, you must use a method that clearly and accurately reflects your gross income and expenses. The records should substantiate both your income and expenses. *Publication 583*, Starting a Business and Keeping Records, and *Publication 463*, Travel, Entertainment, Gift, and Car Expenses, provide additional information on required documentation for taxpayers with business expenses. *Publication 17*, Your Federal Income Tax for Individuals, provides more information on recordkeeping requirements for individuals.