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Record Keeping Tips and Guidelines for Businesses

The tax law requires all businesses to keep records to support the gross income, deductions, and credit claimed on their income tax returns.

All businesses should have a permanent set of books which summarize individual deposits, disbursements, and items of adjustment. These records should be retained indefinitely. Permanent records also include those needed to prove the basis (cost) of depreciable assets.

Supporting documents may be needed to validate the journal entries of your returns are examined by the IRS. The general rule is that supporting documents should be retained at least until the statute of limitations for a tax year has passed.

The supporting documents the IRS reviews include bank statements, cancelled or substitute checks, payroll records, invoices, and the like. You should also retain documents supporting deposits which do not reflect income, such as loan documents.

What happens if your records are inadequate?

If you fail to retain adequate records to support the items claimed on your returns, the IRS has authority to reconstruct your income using one of several methods, including estimating increased net worth, looking at bank records, or estimating the raw material used in manufacture. Whatever method the IRS uses, you have the burden of proof if you dispute the estimate. Without adequate records, proving wrong the IRS estimates is difficult at best. You could end up with an assessment for additional taxes, plus penalties and interest.

How long should records be kept?

The IRS suggests the *minimum* following requirements (Please see the Grimbleby Coleman recommendations in the table below):

1. **Tax Returns**. Keep records for three years. For example, if you filed your tax return on October 15, 2008, you can technically get rid of it on October 16, 2011. (See our recommendations below.)
2. **Claims for credit or refund**. Keep records for three years after the date you filed the claim or two years after you paid the tax, whichever is later.
3. **Employment tax records**. Keep them for at least four years after the date the tax becomes due or is paid, whichever is later.

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Grimbleby Coleman recommends that business records, whether electronic or paper, be retained in a safe location for the following time periods:

Record	Retention Period
Cancelled Checks	7 Years
Credit Card Receipts	7 Years
Paid Invoices	7 Years
Bank Deposit Slips	7 Years
Bank Statements	7 Years
Tax Returns (Uncomplicated)	7 Years
Tax Returns (All Others)	Permanent
Employment Tax Returns	7 Years
Expense Records	7 Years
Financial Statements	Permanent
Contracts	Permanent
Minutes of Meetings	Life of Company + 7 Years
Corporate Stock Records	Permanent
Employee Records	Period of Employment + 7 Years
Depreciation Schedules	Life of Assets + 7 Years
Real Estate Records	Ownership Period + 7 Years
Journal and General Ledger	Life of Business + 7 Years
Inventory Records	7 Years
Home Purchase and Improvement Records	Ownership Period + 7 Years
Investment Records	Ownership Period + 7 Years