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Retaining and storing income tax records is an important final step of your tax filing responsibility. This letter is a refresher on recommended retention periods, along with some information on storage options.

When determining how long to keep your income tax records, we look at the timeframe over which IRS can audit returns assess deficiencies, or amended returns can be filed. For most taxpayers, this period is three years from the original due date of the return or the date the return is filed, whichever is later. For example, if you filed your 2009 Form 1040 on or before April 15, 2010, the IRS has until April 15, 2013, 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 statute of limitations period is extended to six years.

A good rule of thumb for keeping tax records is to add one year to the statute of limitations. 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 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 longer than described above and some others 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, business ledgers, and financial statements are examples of the types of records that should normally be retained indefinitely.

Keep in mind that there may be non-tax reasons to keep certain tax records beyond the time required for tax purposes. This might include documents such as life insurance policies, leases, real estate closing statements, paid notes, 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. Certain requirements must be met to take advantage of an electronic storage system.

If you have any questions regarding your specific situation or would like to discuss, please give our office a call.

- tax services
- accounting
- estate and financial planning

## Recommended Record Retention Periods

### **Three Years**

Auto mileage books  
Bank deposit slips  
Bank reconciliations  
Budgets  
Cancelled Checks  
Charitable acknowledgments  
Correspondence  
Deposit slips  
Entertainment records  
Expense reports  
Expired insurance policies  
Interim financial statements  
Petty cash vouchers  
Sales invoices  
Vendor invoices  
Depreciation schedules – keep up to 3 years after the life of the asset has expired  
Employee personnel records – keep up to 3 years after termination

### **Six Years**

Bank loans (after payoff)  
Bank statements  
Contracts (after expiration)  
Employee payroll records  
Insurance records  
Leases (after expiration)  
Mortgage and notes receivable (after payoff)

### **Seven Years**

Accounts payable ledgers  
Accounts receivable ledgers  
Canceled checks (except as shown in permanent records below)  
Employee time records  
Inventory records (except LIFO)  
Notes receivable ledgers  
Payroll tax records and reports  
Subsidiary ledgers

## Recommended Record Retention Periods (cont'd)

### **Permanent Records**

Annual audited financial statements  
Canceled checks (for tax payments, fixed asset purchases, etc.)  
Chart of accounts  
Company minutes  
Corporate stock records  
General Ledgers and journals  
IRS audit reports  
IRS elections  
Legal correspondence  
LIFO inventory records  
Property appraisals  
Real estate purchase and sell records  
Retirement plan reports  
Tax returns  
Trademark registrations  
Workpapers for tax returns