



# How long to keep tax records?

*A publication of Salmon Sims Thomas Accountants & Consultants*

Retaining and storing your income tax records is an important final step of your tax filing responsibility. Here are the rules about how long you should store your tax records.

In general, tax records should be kept for the same length of time that the IRS could potentially audit a return or assess a tax deficiency. For most taxpayers, this period is three years from the original due date of the return or the date an amended return is filed, if later.

For example, if you filed your 2012 Form 1040 on or before April 15, 2013, the IRS has until April 15, 2016, to audit the return and assess a deficiency. There are exceptions to the three year rule. The time period is extended to six years is if the return includes a substantial understatement of income. If a fraudulent return is filed, the IRS can perform an audit anytime.

## **So, should you keep your federal return for three years, six years, or indefinitely?**

A good rule of thumb for keeping tax records is to add a year to the IRS statute of limitations. Most income tax returns should be kept for four years. However, the IRS informally recommends keeping records for seven years. This recommendation normally suffices for state tax purposes as well, assuming both the returns were filed at the same time.

## **Besides income tax returns, there are other tax records that should be kept much longer, even indefinitely.**

IRS and state audit reports, and business ledgers and financial statements are examples of the types of records you should normally retain indefinitely. In addition, keep any records that substantiate the cost basis of property that could eventually be sold. For example, tax documents relating to investment property and business fixed assets should be retained based on the record retention period for the year in which the property is sold.

The IRS permits taxpayers to store certain documents electronically too. The rules regarding electronic storage permit taxpayers to convert paper documents into electronic files. The paper files can then be destroyed.

We hope this brief overview helps you understand the income tax record retention rules. If you have any questions regarding your specific situation or you would like to discuss these rules in more detail, please give us a call at 972-392-1143 or toll free at 888-332-4829. Salmon Sims Thomas will be happy to provide additional guidance.



# Records Retention Schedule

A publication of Salmon Sims Thomas Accountants & Consultants

	<u>Retention Period</u>
Accidents reports/claims ( <i>settled cases</i> ).....	7 yrs.
Accounts payable ledgers & schedules .....	7 yrs.
Accounts receivable ledgers & schedules .....	7 yrs.
Audit reports .....	Permanently
Bank reconciliations .....	7 yrs.
Bank statements.....	7 yrs.
Capital stock & bond records: ledgers, transfer registers, stubs showing issues, record of interest coupons, options, etc .....	Permanently
Cash books .....	Permanently
Chart of accounts .....	Permanently
Checks ( <i>cancelled- see exception below</i> ) .....	7 yrs.
Checks ( <i>cancelled for important payments - i.e., taxes, purchas-es of property, special contracts, etc. Checks should be filed with the papers pertaining to the underlying transaction.</i> ).....	Permanently
Contracts, mortgages, notes & leases ( <i>expired</i> ) .....	7 yrs.
Contracts, mortgages, notes, & leases ( <i>still in effect</i> ) .....	Permanently
Correspondence ( <i>general</i> ) .....	3 yrs.
Correspondence ( <i>legal &amp; important matters only</i> ) .....	Permanently
Correspondence ( <i>routine</i> ) with customers and/or vendors.....	2 yrs.
Deeds, mortgages, & bills of sale .....	Permanently
Depreciation schedules .....	Permanently
Duplicate deposit slips .....	5 yrs.
Employment applications .....	3 yrs.
Expense analyses/expense distribution schedules .....	7 yrs.
Financial statements ( <i>year-end, other optional</i> ).....	Permanently
Garnishments .....	7 yrs.
General/private ledgers, year-end trial balance .....	Permanently
Insurance policies ( <i>expired</i> ).....	3 yrs.
Insurance records, current accident reports, claims, policies, etc .....	Permanently
Internal audit reports ( <i>longer retention periods may be desirable</i> ) .....	3 yrs.
Internal reports ( <i>miscellaneous</i> ) .....	3 yrs.
Inventories of products, materials, & supplies .....	7 yrs.
Invoices ( <i>to customers, from vendors</i> ) .....	7 yrs.

	<u>Retention Period</u>
Journals .....	Permanently
Minute books of directors, stockholders, bylaws, & charter .....	Permanently
Notes receivable ledgers & schedules .....	7 yrs.
Option records ( <i>expired</i> ) .....	7 yrs.
Patents & related papers .....	Permanently
Payroll records & summaries .....	7 yrs.
Personnel files ( <i>terminated</i> ) .....	7 yrs.
Petty cash voucher .....	3 yrs.
Physical inventory tags.....	3 yrs.
Plant cost ledgers .....	7 yrs.
Property appraisals by outside appraisers .....	Permanently
Property records, including costs, depreciation reserves, year-end trial balances, depreciation schedules, blueprints, & plans .....	Permanently
Purchase orders ( <i>except purchasing department copy</i> ) .....	1 yr.
Purchase orders ( <i>purchasing department copy</i> ).....	7 yrs.
Receiving sheets.....	1 yr.
Retirement & pension records .....	Permanently
Requisitions .....	1 yr.
Sales commission reports .....	3 yrs.
Sales records .....	7 yrs.
Scrap & salvage records ( <i>inventories, sales, etc.</i> ) .....	7 yrs.
Stenographers' notebooks .....	1 yr.
Stocks & bonds certificates ( <i>cancelled</i> ).....	7 yrs.
Stockroom withdrawal forms .....	1 yr.
Subsidiary ledgers.....	7 yrs.
Tax returns & worksheets, revenue agents' reports, & other documents relating to determination of income tax liability .....	Permanently
Time books/cards.....	7 yrs.
Trademark registrations & copyrights .....	Permanently
Training manuals .....	Permanently
Union agreements .....	Permanently
Voucher register & schedules .....	7 yrs.
Vouchers for payments to vendors, employees, etc. ( <i>includes allowances &amp; reimbursement of employees, officers, etc., for travel &amp; entertainment expenses</i> ) .....	7 yrs.
Withholding tax statements .....	7 yrs.