Balance sheet

Record Retention

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With tax season upon us, there is much hustle and bustle organizing tax documents so you can file your return before the deadline. This can be very stressful, but it is so relieving when it is all done. Once your return is complete, you may be wondering what to do with your return and all the supporting documentation.

The IRS has a policy called the period of limitations. It is the period of time in which you can amend your tax return to claim a credit or refund, or the IRS can assess additional tax. Records that support the information on your tax return, whether business or individual, must be kept until that period of limitations expires.

The information in the table below reflects the period of limitations that apply to tax returns. Unless otherwise stated, the years refer to the period after the return was filed. Returns filed before the due date are treated as being filed on the due date.

If you…	Then the period is…
1. owe additional tax and (2), (3), and (4) do not apply	3 years
2. do not report income that should have been reported, and it is more than 25% of the gross income shown on your return	6 years
3. filed a fraudulent return	No limit
4. did not file a return	No limit
5. filed a claim for credit/refund after you filed your return	The later of 3 years or 2 years after the tax was paid
6. filed a claim for a loss from worthless securities or bad debt reduction	7 years

The length of time you should keep supporting documentation depends on the action, expense, or event of the document.

Documents proving an item of income or expense on your return, like receipts or cancelled checks, should be kept for 3 years from the date the return was due or filed (including extensions) or two years from the date the tax was paid, whichever is later.

Employment records must be kept the later of 4 years after the date the tax is due or is paid. This would include, but is not limited to, payroll tax checks, payroll journals, W-2'S, W-4'S, annual earnings records, and payroll tax returns.

All records relating to property must be kept until the period of limitations expires for the year in which you dispose of the property in a taxable disposition. They must be kept to figure any depreciation, amortization, or depletion deductions and to figure the gain or loss when the property is sold or disposed.

When the period of limitations expire on records or are no longer needed for tax purposes, do not discard them until you check to see if you have to keep them longer for other purposes. This could include insurance companies or creditors.

If you have any questions about record retention policies, please contact our office.