

# McDaniel & Company, PLLC

## *Certified Public Accountants*

518-B Arbor Hill Road

Kernersville NC 27284-3346

Office (336) 996-3338 Fax (336) 996-1166

## **How Long Should You Keep Your Records?**

---

The *Internal Revenue Code* as Section 6001-1(e) provides the general rule that books and records must be kept as long as the information may be material in the administration of income tax laws. For practical purposes, this means that books and records must be kept for as long as there is a possibility that the taxpayer could file an amended return or claim for refund, or the IRS could audit the return or assess additional tax.

Generally, the IRS has three years after a return is filed to assess additional tax.

However, if there is an omission of more than 25% of gross income from the return, additional tax can be assessed at any time within six years of when the return is filed.

However, if no return is filed, the return filed is false or fraudulent or if there is a willful attempt to evade tax, there is no limitation period on the assessment of additional taxes.

As a result of these rules, books and records relating to income tax returns should be kept a minimum of three years from the date the return is filed. It would be wise, however, to keep records relating to gross income for at least six years to avoid an IRS claim that more than 25% of gross income was omitted.

Tax returns should be kept forever to provide proof that they were filed. In addition, the basic underlying financial records, such as annual financial statements and reconciliations to tax returns, should be kept indefinitely. This would help overcome any IRS attempt to assert that tax returns were false, fraudulent, or that there was a willful attempt to evade taxes.

We can provide specific input as you develop record retention policies and procedures for your organization. The following table may get you started. If you have any questions, please do not hesitate to call.

## Recommended Records Retention Schedule

Types of Records	4 Yrs	7 Yrs	Perm
Accounts payable ledgers & schedules		✓	
Accounts receivable ledgers & schedules		✓	
Company policy & practice manuals			✓
Audit reports			✓
Bank statements	✓		
Bank reconciliations	✓		
Canceled checks	✓		
Chart of accounts			✓
Contracts & leases: expired		✓	
still in effect			✓
Correspondence: contributions	✓		
general	✓		
legal & important matters only			✓
Depreciation schedules			✓
Election records			✓
Employee personnel records (after termination)		✓	
Employee W-2 and payroll tax returns		✓	
Financial records/schedules used in preparation of tax returns			✓
Financial statements (year-end)			✓
General ledgers; year-end trial balances	✓		
Insurance policies (including expired policies)			✓
Inventories	✓		
Invoices: from vendors	✓		
to customers	✓		
Minutes of director & committee meetings (incl. bylaws & charter)			✓
Ownership of property, real estate, patents, trademarks, copyrighted documents (from date ownership ends)		✓	
Payroll records & summaries		✓	
Pension documents & records			✓
Petty cash vouchers	✓		
Purchase orders	✓		
Receipt records (sales, etc.)	✓		
Sales records and journals	✓		
Subsidiary ledgers	✓		
Tax returns			✓
Time sheets		✓	
Vouchers for payments to employees for reimbursements, allowances, etc.		✓	

