

Record Keeping

I often get questions that pertain to how long to keep what, what to worry about and save, what if records were lost.

The first rule everyone hears is keep your records for seven to ten years. If you are an individual taxpayer without a business, you can keep your records and tax returns for four years. Statutes run out three years after the date of filing. For example, when you filed last year's taxes (2009), the filing date was 2010. Statute will expire in 2013; meaning that IRS won't audit that year. Why keep for four years, then? If you are audited, the IRS likes the year prior to audit, and the year following audit.

If you have a business with equipment that has been depreciated, you must keep those records until the depreciation wears off, plus the four years. If payroll is involved, you must keep your records for seven years.

The records that you need are very simple. Everything. If you have it written down on your tax return, you must be able to prove it out. It needs to match. If you have a business and are deducting meals and entertainment, you must have the receipts, and in writing who you were with and what was discussed. Yep, that matters in an audit.

If you don't have records and are trying to create a business tax return, first try to reconstruct the income through bank records. No records? Get them. It will cost from the bank, but it is a cost that is well worth it. The records from the bank will also have your checks and debit card purchases. Those will help. There is a "Rule" that the IRS accepts. It's the Cohan Rule. Cohan was an entertainer who didn't keep his records. He was audited, and was able to prove certain things with Playbills, postcards from travels, song lyrics that were copyrighted. Cohan states that you can reasonably estimate your everyday business expenses that are usual and customary. This requires research on the internet, and you must specify how you came up with your numbers. There is no Cohan for meals and entertainment.

If you have any questions that you would like answered about taxes, please email kristhetaxlady@gmail.com. I will answer your questions, and print your questions and answers as well.