

Keep Supporting Records Until the Statute of Limitations Runs Out

It's probably a good thing that the April 15th deadline and the urge to spring clean fall at the same time. It feels good to throw out some of the financial records being stuffed into your file cabinets. But make sure you're not disposing of any records you may need, before you decide to head to the trash can. You don't want to be caught empty-handed if an IRS auditor contacts you.

In general, you need to keep records that support items shown on your individual tax return until the statute of limitations runs out – generally three years from the due date of the return, or the date you filed, whichever is later. In most cases, the IRS can audit your return for three years. You can also file an amended return on Form 1040X during this time period if you missed a deduction, overlooked a credit or misreported your income.

So, does that mean you're safe from an audit after three years? Not necessarily. There are exceptions:

- If the IRS has reason to believe your income was understated by 25 percent or more, the statute of limitations for an audit increases to six years.
- If there is suspicion of fraud or you don't file a tax return at all, there is no time limit for the IRS.

Employee Earnings. Maintain for a minimum of four years, to meet various state and federal requirements.

Employee time cards. Keep for at least three years if your business is subject to the Fair Labor Standards Act (engaged in interstate commerce), although it's a good practice for all businesses to keep the files for several years in case questions arise.

Personnel records. Retain three years after an employee has been terminated.

Employee business expenses. For travel and transportation expenses supported by mileage logs and other receipts, keep supporting documents for the three-year statute of limitations period.

Sales tax returns. State regulations vary. For example, New York generally requires sales tax records to be retained for three years, while California requires four years, and Arkansas, six. Check with your tax adviser for the required record retention period for returns and supporting documents.

Business property. Records used to substantiate the cost and deductions (such as depreciation) associated with business property must be maintained to determine the basis and gain (or loss) on the sale. Keep these for as long as you own the asset, plus seven years, according to IRS guidelines.

Questions?

For information regarding these topics or general questions, please call Wegner LLP, CPAs and Consultants at (608) 274-4020.