

Record Retention Guidelines

Information for Growth

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Good Recordkeeping Is Essential to a Successful Business

Most business owners understand the need for good recordkeeping, but many aren't clear about what documents they should save and for how long.

Audit Manager Jeff Zaye believes that keeping good records and having a retention policy are not only essential for tax reporting purposes but also for the success of a company.

How long to keep records is generally a combination of judgment and state and federal statutes of limitations, says Zaye. The federal statute of limitation is three years from the date the tax return is filed or two years from the date the tax is paid, whichever date is later.

But 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, Zaye points out. If there is suspicion of fraud or you don't file a tax return at all, there is no time limit for the IRS.

For a small business owner, the main reason to retain information is for IRS purposes, but there are other key reasons to keep documents and a few for not retaining them.

"Contradictory information should be resolved and eliminated whenever possible," Zaye advises. "In the case of storage, you have to determine what's better – to have stuff or have space."

Zaye indicates that there are some records that should be kept permanently. In many cases these relate to financial statements and personal investment records.

More detailed support documents for tax purposes or related to financial statements should be retained for at least seven years. The most problematic among these documents for business owners are paid invoices and invoices sent to customers. "Often these types of records get destroyed sooner than they ought to," Zaye stresses.

Documents that should be kept for a shorter term (three years) provide further detail and are less crucial, but still good to have on hand. Routine forms and correspondence are the types of documents that need to be kept for one year. Zaye believes that the retention of these documents usually makes things more convenient for those managing a business.

Requirements for records kept electronically are the same as for paper records.

RECORDS TO KEEP PERMANENTLY

- Audit Reports
- Tax Returns, Revenue Agent's reports
- Capital stock/bond records
- Cash books
- Cancelled checks (taxes, purchases of property, special contracts, etc.)
- Chart of accounts
- Contracts/Leases
- Correspondence (legal & important matters only)
- Deeds/Mortgages
- General/private ledgers, year end trial balance
- Insurance records
- Journals
- Minute books
- Patents and related papers
- Property records
- Property appraisals by outside appraisers
- Retirement and pension records
- Depreciation schedules
- Trademark registrations and copyrights
- Training manuals
- Union Agreements
- Year-end financial statements

RECORDS TO KEEP FOR SEVEN YEARS

- Accident reports/claims (settled cases)
- Accounts payable and receivable ledgers and schedules
- Cancelled checks (except for those noted above)
- Garnishments
- Inventories
- Invoices (to customers, from vendors)
- Notes receivable ledgers and schedules
- Option records (expired)
- Payroll records and summaries
- Vouchers for pmts to vendors, employees, etc
- Bank statements and reconciliations
- Stock and bond certificates (cancelled)
- Plant cost ledgers
- Purchase orders (purchasing dept copy)
- Sales records
- Scrap and salvage records
- Subsidiary ledgers
- Time books/cards
- Vouchers and voucher register
- Withholding tax statements
- Expense analyses and expense
- Interim financial statements

Zaye's Top Five Reasons for Retaining Information

- IRS Audit
- Financial Statement Audit
- Legal Proceedings
- Insurance Purposes
- Convenience

Reasons for NOT Retaining Information

- Legal Proceedings
- Storage Limitations
- Organizational Challenges



Jeff Zaye, CPA, Audit Manager

RECORDS TO KEEP FOR THREE YEARS

- Petty cash vouchers
- Physical inventory tags
- Sales commission reports
- Employee personnel files (three years after terminated)
- Bank statements and reconciliations
- Employment applications
- Insurance policies (expired)
- Internal audit reports
- Internal reports (miscellaneous)

RECORDS TO KEEP FOR ONE YEAR

- Purchase orders
- Requisitions
- Correspondence – routine – general
- Receiving sheets
- Stenographer notebooks