Good Recordkeeping

Prepare for tax season with good recordkeeping

Think ahead!

Whether it is tax season or not, it is always a good time to start preparing for the upcoming tax year. Simple actions now may save time and stress when tax season comes or if the IRS requests proof from you for certain claims and deductions you made on your tax return. You don’t have to have a filing cabinet to save your documents. Even a shoebox is sufficient, as long as you can locate and identify your records.

Why should keep I records?

Identify sources of income. Your records can identify the sources of your income to help you separate business from nonbusiness income and taxable from nontaxable income.

Keep track of expenses. You can use your records to identify expenses for which you can claim a deduction. This helps you determine if you can itemize deductions on your tax return.

Keep track of the basis of property. You need to keep records that show the basis of your property. This includes the original cost or other basis of the property and any improvements you made.

Prepare tax returns. You need records to prepare your tax return.

Support items reported on tax returns. The IRS may question an item on your return. Your records will help you explain any item and arrive at the correct tax. If you cannot produce the correct documents, you may have to pay additional tax and be subject to penalties.

How long should I keep records?

Records such as receipts, canceled checks, and other documents that support an item of income or a deduction, or a credit appearing on a return must be kept until IRS’s deadline to request this information has passed. For assessment of **tax you owe**, this generally is 3 years from the date you filed the return. Returns filed before the due date are treated as filed on the due date.

If income that you should have reported is not reported, and it is more than 25% of the gross income shown on the return, the time to assess is 6 years from when the return is filed.

There is no period of limitations to assess tax when a return is fraudulent or when no return is filed.

What records should I keep?

Individual taxpayers should usually keep records **supporting items** on their tax returns for at least three years, including: bills, credit card and other receipts, invoices, mileage logs, canceled, imaged or substitute checks or any other proof of payment, and any other records to support deductions or credits claimed on the return.

You should normally keep records relating to **property** until at least three years after you sell or otherwise dispose of the property. Examples include home purchase or improvement, stocks and other investments, Individual Retirement Arrangement (IRA) transactions, and rental property records (such as a lease).

If you are a **small business owner**, you must keep all your employment tax records for at least six years after the tax becomes due or is paid, whichever is later, including receipts, proof of purchase, expense documents, invoices, etc.

If you expect to claim the **Earned Income Tax Credit**, you should keep records to prove that a Qualifying Child lived with you during the tax year. This may include lease agreements, public welfare notices (e.g. SNAP, WIC), records from a doctor/pediatrician, etc.

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