



Guidelines for Tax Record Retention

What to Do With Your Tax Records

Are you ready for a major house cleaning but not sure how long you need to keep old tax records? The following general guidelines should help you get organized.

The general rule under federal income tax regulations requires you to keep your records so long as the contents may be material to the administration of the tax law.

The retention periods shown apply to records needed to substantiate your federal income tax return and are generally based on the federal statute of limitations, which is normally three years. This means the Internal Revenue Service normally could audit your return up to three years from the due date of the tax return or the date of filing, whichever is later. However, if you fail to file a return or the return filed is fraudulent, the statute of limitations could be much longer.

In addition, the statute in some states exceeds the federal statute, or the states have laws or regulations that require taxpayers to maintain records beyond the state's statute of limitations, often to verify carryovers, etc.

Tailor your years of retention to the longer of the federal and state requirements. In deciding your own record-retention schedule, consider keeping indefinitely those records that cannot be recreated by any other office, institution or governmental unit. And keep in mind your own financial concerns that may affect the length of time you keep your records. Also consult with your attorney for approval of any record-retention policy.

Statute of Limitations for BKD States

State	Statute	Regulation Retention
Arkansas	3 years	Arkansas regulations require records be kept for six years
Colorado	4 years	Colorado regulations require records be kept for four years
Illinois	3 years	Illinois regulations do not specify minimum record-retention periods
Indiana	3 years	Indiana regulations require records be kept for three years
Kansas	3 years	Kansas regulations do not specify minimum record retention periods
Kentucky	4 years	Kentucky regulations require records of tax payments be kept for seven years
Mississippi	3 years	Mississippi regulations do not specify minimum record retention periods
Missouri	3 years	Missouri regulations require records be kept for four years
Nebraska	3 years	Nebraska regulations do not specify minimum record retention periods
Ohio	3 years	Ohio regulations require records be kept four years
Oklahoma	3 years	Oklahoma regulations do not specify minimum record-retention periods
Texas	4 years	Texas regulations require records be kept four years

10 top



*With a top 10 U.S. CPA and advisory firm, you'll gain from our broad perspective on the issues you face and **experience practical direction.***

Guidelines for Paper Records

Three Years (from date of filing return or due date of return, whichever is later)

Auto mileage logs (three years or life of vehicle)

Bank deposit slips

Cancelled checks

Daily sales records

Entertainment records

Expense reports

Paid vendor invoices

Written acknowledgment from charity for contributions of \$250 or more

Six Years

Bank statements

Contracts (after expiration)

Permanent

Annual financial statements

Corporate stock records

General ledger & journals

Real estate records

Tax returns

Copy C of Form W-2

LIFO inventory records

Other

Depreciation schedules (life of asset, plus three years)

Meeting minutes (life of company)

IRA contribution and distribution records (three years after final distribution)

Special Rules for Computer Records

The definition of books and records goes beyond the typical hard copy items when you maintain all or part of your accounting records on a computer.

In general, record-retention periods are the same for "machine-sensible" records as they are for their hard-copy counterparts.

Machine-sensible records include magnetic tapes, punched cards and computer disks. Retrievability is important where machine-sensible records are concerned. Not only must certain records be maintained, but the IRS must have access to those records. This becomes especially burdensome when computer systems are upgraded.

If you or your business have more than \$10 million in assets*, and you maintain all or a portion of your accounting records on a computer, the IRS requires that your machine-sensible records be in a retrievable format and provide the information necessary to determine the correct tax liability. This requirement applies even if your accounting system is maintained by an outside service bureau. To comply with this requirement, you must retain the following specific documentation for all data files:

- Record formats (including the meaning of all the codes used to represent information)
- System and program flowcharts
- Label descriptions
- Source program listings of programs that created the files retained

- Detailed charts of accounts
- Evidence that periodic tests are performed on the retained records to ensure they can produce the data stored in the records
- Evidence that retained records reconcile to the taxpayer's books and the tax return

If you or your business have less than \$10 million in assets, but you maintain all or a portion of your accounting records on a computer, the IRS requires you to conform to the above standards if (1) your books and records are only available in machine-sensible format, (2) machine-sensible records were used for complex computations (such as LIFO) or (3) you are notified by the IRS that your machine-sensible records must be maintained. ***Members of a controlled group of corporations are combined for this purpose.**