

RECORDKEEPING FOR TAXES FAQ'S

There are several types of records that you should keep. Most experts believe it's wise to keep most types of records for at least seven years, and some you should keep indefinitely.

What type of records do I need to keep?

Keep records of all your current year income and deductible expenses. These are the records that an auditor will ask for if the IRS selects you for an audit.

Here's a list of the kinds of tax records and receipts to keep that relate to your **current year** income and deductions:

- Income (wages, interest/dividends, etc.)
- Exemptions (cost of support)
- Medical expenses
- Taxes
- Interest
- Charitable contributions
- Child care
- Business expenses
- Professional and union dues
- Uniforms and job supplies
- Education, if it is deductible for income taxes
- Automobile, if you use your automobile for deductible activities, such as business or charity
- Travel, if you travel for business and are able to deduct the costs on your tax return

While you're storing your current year's income and expense records, be sure to keep your bank account and loan records too, even though you don't report them on your tax return. If the IRS believes you've underreported your taxable income because your lifestyle appears to be more comfortable than your taxable income would allow, having these loan and bank records may be just the thing to save you.

How long should I keep these records?

Keep the records of your current year's income and expenses for as long as you may be called upon to prove the income or deduction if you're audited.

For federal tax purposes, this is generally three (3) years from the date you file your return (or the date it's due, if that's later), or two (2) years from the date you actually pay the tax that's due, if the date you pay the tax is later than the due date. If you file a fraudulent return or do not file a return keep records indefinitely.

If you file a claim for a loss from worthless securities or bad debt deduction; keep records for seven (7) years.

Keep all employment tax records for at least four (4) years after the date that the tax becomes due or is paid, whichever is later.

How long should I keep my old tax returns?

You may want to keep your old returns forever, especially if they contain information such as the tax basis of your house. Probably, though, keeping them for the previous three or four years is sufficient.

If you throw out an old return that you find you need, you can get a copy of your most recent returns (usually the last six years) from the IRS by filing Form 4506, Request for Copy or Transcript of Tax Form. When you complete the form, send it, with the required small fee, to the IRS Service Center where you filed your return.

What other types of tax records should I keep?

You need to keep some other types of tax records and receipts, because they tell you how much you paid for something that you may later sell. For example,

- Records of capital assets, such as coin and antique collections, jewelry, stocks, and bonds.
- Records regarding the purchase and improvements to your home.
- Records regarding the purchase, maintenance, and improvements to your rental or investment property.

How long should I keep these records? You need to keep these records as long as you own the item so you can prove the cost you use to figure your gain or loss when you sell the item.

Are there any non-tax records I should keep?

There are other records you should keep, even though they don't appear to have any use for your tax returns. Here are a few examples:

- Insurance policies, to show whether you were to be reimbursed in case you suffer a casualty or theft loss, have medical expenses, or have certain business losses.
- Records of major purchases, in case you suffer a casualty or theft loss, contribute something of value to a charity, or sell it.
- Family records, such as marriage licenses, birth certificates, adoption papers, divorce agreements, in case you need to prove change in filing status or dependency exemption claims.
- Certain records that give a history of your health and any medical procedures, in case you need to prove that a certain medical expense was necessary.

Do you contribute to charity?

If you donate to a charity, you must have receipts to prove your donation.

Contributions in cash, check or other monetary form are not deductible unless substantiated by one of the following:

- A bank record that shows the name of the qualified organization, the date of the contribution, and the amount of the contribution. Bank records may include: a canceled check, a bank or credit union statement or a credit card statement.
- A receipt (or letter or other written communication) from the qualified organization showing the name of the organization, the date of the contribution, and the amount of the contribution.
- Payroll deduction records. The payroll records must include a pay stub, Form W-2 or other document furnished by the employer that shows the date and the amount of the contribution, and a pledge card or other document prepared by or for the qualified organization that shows the name of the organization.

Besides deducting your cash and non-cash charitable donations, you can also deduct your mileage to and from charity work. If you deduct mileage for your charitable efforts, keep detailed records of how you figured your deduction.

Do you hire domestic workers?

It's important to keep accurate information about who works for you, including nannies and housekeepers, when and where they worked for you, and how much you paid them for the work.