

Record Retention Guidelines

A question we often receive is how long our clients should retain their tax records. Of course, the answer is, "It depends!"

General guidance from the Internal Revenue Service is to retain records for three years after the related tax return is filed. Most states, including Virginia, defer to the IRS's rules, but some have their own requirements. And the IRS rules vary based on circumstances.

Record retention rules are the same for individuals and businesses. Additionally, if you have employees, you are required to retain employment tax records for at least 4 years after the tax becomes due or is paid, whichever is later.

Records related to the purchase of property should be maintained until after the property is sold. This applies to purchases of real estate, machinery and equipment, inventory, and other assets. Records for improvements to real estate or other assets should also be retained until after the asset is sold, based on the guidelines mentioned above.

What records should be retained? Records must be maintained to support any income, expenses, or credits reported. This includes official tax documents such as W-2s, 1099s, and such, but also covers general record keeping requirements for business income and expenses. No specific format or system is mandated, but your records should clearly show your income and expenses.

How should records be stored? Again, there is no specific instruction on how to safeguard tax records. A fireproof safe is the best option, along with birth certificates, real estate deeds, and other vital documents. To save space, digital copies are an option, as long as they are legible, in the event of a review or audit.

The following are general guidelines for how long to maintain certain documents:

Business Documents To Keep For One Year

- Correspondence with Customers and Vendors
- Duplicate Deposit Slips
- Purchase Orders (other than Purchasing Department copy)
- Receiving Sheets
- Requisitions
- Stenographer's Notebooks
- Stockroom Withdrawal Forms

Business Documents To Keep For Three Years

- Employee Personnel Records (after termination)
- Employment Applications
- Expired Insurance Policies
- General Correspondence
- Internal Audit Reports
- Internal Reports
- Petty Cash Vouchers
- Physical Inventory Tags
- Savings Bonds Registration Records of Employees
- Time Cards for Hourly Employees

Business Documents To Keep For Six Years

- Accident Reports, Claims
- Accounts Payable Ledgers and Schedules
- Accounts Receivable Ledgers and Schedules
- Bank Statements and Reconciliations
- Cancelled Checks
- Cancelled Stock and Bond Certificates
- Employment Tax Records
- Expense Analysis and Expense Distribution Schedules
- Expired Contracts, Leases
- Expired Option Records
- Inventories of Products, Materials, Supplies
- Invoices to Customers
- Notes Receivable Ledgers and Schedules
- Payroll Records and Summaries, including payment to pensioners
- Plant Cost Ledgers
- Purchasing Department Copies of Purchase Orders
- Sales Records
- Subsidiary Ledgers
- Time Books
- Travel and Entertainment Records
- Vouchers for Payments to Vendors, Employees, etc.
- Voucher Register, Schedules

Business Documents To Keep Forever

While federal guidelines do not require you to keep tax records “forever,” in many cases there will be other reasons you’ll want to retain these documents indefinitely.

- Audit Reports from CPAs/Accountants

- Cancelled Checks for Important Payments (especially tax payments)
- Cash Books, Charts of Accounts
- Contracts, Leases Currently in Effect
- Corporate Documents (incorporation, charter, by-laws, etc.)
- Documents substantiating fixed asset additions
- Deeds
- Depreciation Schedules
- Financial Statements (Year End)
- General and Private Ledgers, Year End Trial Balances
- Insurance Records, Current Accident Reports, Claims, Policies
- Investment Trade Confirmations
- IRS Revenue Agent Reports
- Journals
- Legal Records, Correspondence, and Other Important Matters
- Minutes Books of Directors and Stockholders
- Mortgages, Bills of Sale
- Property Appraisals by Outside Appraisers
- Property Records
- Retirement and Pension Records
- Tax Returns and Worksheets
- Trademark and Patent Registrations

Personal Documents To Keep For One Year

- Bank Statements
- Paycheck Stubs (reconcile with W-2)
- Canceled checks
- Monthly and quarterly mutual fund and retirement contribution statements (reconcile with year-end statement)

Personal Documents To Keep For Three Years

- Credit Card Statements
- Medical Bills (in case of insurance disputes)
- Utility Records
- Expired Insurance Policies

Personal Documents To Keep For Six Years

- Supporting Documents for Tax Returns
- Accident Reports and Claims
- Medical Bills (if tax-related)
- Sales Receipts
- Wage Garnishments

- Other Tax-Related Bills

Personal Documents To Keep Forever

- CPA Audit Reports
- Legal Records
- Important Correspondence
- Income Tax Returns
- Income Tax Payment Checks
- Investment Trade Confirmations
- Property Records / Improvement Receipts (or six years after property is sold)
- Retirement and Pension Records (Forms 5448, 1099-R, and 8606 until all distributions are made from your IRA or other qualified plan)

Special Circumstances

- Car Records – keep until car is sold
- Credit Card Receipts – keep until verified on your statement
- Insurance Policies – keep for life of the policy
- Mortgages / Deeds / Leases – keep 6 years beyond agreement
- Pay Stubs – keep until reconciled with your W-2
- Sales Receipts – keep for life of the warranty
- Stock and Bond Records – keep for 6 years beyond selling
- Warranties and Instructions – keep for the life of the product
- Other Bills – keep until payment is verified on the next bill
- Depreciation Schedules and Other Capital Asset Records – keep for 3 years after the tax life of the asset