

A Guide to Tax Record Keeping for Entrepreneurs and Individuals



TAX PROTECTION **— P L A N —**

Lifetime Protection from Taxes and Crashes
Prepared in Cooperation with Blueprint Retirement Advisors LLC

When it comes to storing your tax records, there are two questions you absolutely must answer.

1. What exactly do you need to keep?
2. How long is long enough?

Let's face it, you're not exactly going to be reading these documents for fun. You're retaining these records in case you ever have to answer uncomfortable questions from the IRS. Audits are no fun, right?

The advisors at Tax Protection Plan have worked with entrepreneurs and individuals for over 3 decades and one thing has become clear. When it comes to tax records it's always best to be over-prepared.

It is also clear that record keeping can be confusing and stressful for many small business owners. They would rather focus on growing the business than taking care of little details like keeping records.

That's why we've put together this short, simple guide for you.

This guide will tell you what you need to retain, and for how long... on both the business and personal side.

It's important to note that this guide covers the most common records but it still isn't 100% inclusive of every possible requirement. It's a great starting point. That said, be sure to review this with your CPA to make sure they are maintaining the proper records related to any special situation tax-strategies you're following.

Also possible, this list may look burdensome to entrepreneurs and individuals who don't have a passion for meticulous record keeping. And that's ok!

Rather than wrestling with this on your own, we recommend bringing the list to your accountant or bookkeeper. Once you're on the same page with your financial team, you'll be able sleep well at night trusting that you're covered and organized in case you ever face an audit.

With that settled, you can get back to doing what you do best: growing your business.

US Federal Tax Law – Small Business Record Keeping

U.S. federal tax law requires you to maintain copies of all tax returns and supporting documents for three years. This is called the "three-year law" and leads many people to believe they're safe provided they keep these documents for a full three years. But don't stop reading here!

If the IRS believes you have significantly underreported your income (by 25 percent or more), they may go back six years in an audit.

This is why we believe it's better to be over-prepared when it comes to tax records. Nobody wants to face an audit. Ever! Yet, the better and more complete your tax records, the easier it will be to breeze through an audit if it does come.

When it comes to your taxes, we want you to be as safe as possible. We want you to rest easy knowing you have done everything you can to protect yourself from recordkeeping mistakes and poor audit consequences.

To make that happen we've categorized the record keeping requirements and timeframes based on Business or Personal taxes. As you work through this resource, we recommend taking a moment to check your records to see what you have at your disposal, and what you need to collect in order to get this document plan started!

Creating a Backup Set of Records – Storing Them Electronically

No single storage method is perfect by itself. Redundancy is the key!

Fortunately, modern technology makes keeping a second set of records is easier than ever. Your financial institutions almost always offer you the tools to download electronic copies of your account documents and statements.

The key word here is download. Don't rely just on their electronic records storage. Companies change and their retention policies could change too. We recommend downloading these documents and storing them electronically.

Records that should be backed up include investment and bank statements, tax returns, insurance policies, trust documents, powers of attorney, etc.

Records that are typically only available on paper should be scanned into .pdf files for easy access and reading in the future.

When you have completed the task of assembling these documents you have several (low cost) options for storage. Keeping these records on a home computer is of limited value. Using detachable tools like hard drives and thumb drives are an excellent way to accomplish this goal.

CAUTION: Identity theft is a serious threat in today's world, and it is important to take every precaution to avoid it. After it is no longer necessary to retain your tax records, financial statements, or any other documents with your personal information, you should dispose of these records by shredding them. Do not dispose of any business or personal finance records by simply throwing them away in the trash.

But don't stop there! No matter how you keep these documents at home, we recommend at least one thumb drive that can be stored off-site with a family member, friend, or safe deposit box. This extra back-up serves as a simple version of fire insurance! Think about it!

Of course, you can also consider having an additional backup in the cloud. With an online cloud storage backup, your files are stored on remote servers. This is a very reliable way not only store, but access your records whenever needed.

Choose the best tools for you but remember, doing nothing is not a good option!

BUSINESS FINANCES

1-Year Documents:

- Correspondence with Customers and Vendors
- Duplicate Deposit Slips
- Purchase Orders (Other than Purchasing Department Copy)
- Receiving Sheets
- Requisitions
- Stenographer's Notebooks
- Stockroom Withdrawal Forms
- Phone Call Log-Books

3-Year Documents

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

6-Year Documents

- Accident Reports, Claims Correspondence
- 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, Schedules
- Payroll Records and Summaries
- Payments to Pensioners
- Plant Cost Ledgers
- Copies of Purchase Orders
- Sales Records
- Subsidiary Ledgers
- Time Books
- Travel and Entertainment Records
- Vouchers for Payments to Vendors, Employees, etc.
- Voucher Register, Schedules

Forever Documents

(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 Agents' Reports
- Journals
- Legal Records, Correspondence and Other Important Matters
- Minute 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 FINANCES

1-Year Documents

- Bank Statements
- Paycheck Stubs (Reconcile with W-2)
- Canceled Checks
- Monthly and Quarterly Mutual Fund and Retirement Contribution Statements (Reconcile with Year-end Statement)

3-Year Documents

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

6-Year Documents

- Supporting Documents For Tax Returns
- Accident Reports and Claims
- Medical Bills (if Tax-Related)
- Property Records / Improvement Receipts
- Sales Receipts
- Wage Garnishments
- Other Tax-Related Bills

Forever Documents

- CPA Audit Reports
- Legal Records
- Important Correspondence
- Income Tax Returns
- Income Tax Payment Checks
- Investment Trade Confirmations

- Retirement and Pension Records

Special Circumstances

- Car Records (Keep Until the Car is Sold)
- Credit Card Receipts (Keep With Your Credit Card Statement)
- Life Insurance Policies (Keep for the Life of the Policy)
- Mortgages / Deeds / Leases (Keep 6 Years Beyond the Agreement)
- Pay Stubs (Keep Until Reconciled with W-2)
- Property Records / Improvement Receipts (Keep Until Property Sold)
- 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)