**Topic 305 – Recordkeeping - Source: irs.gov**

Well-organized records make it easier to prepare a tax return and help provide answers if your return is selected for examination or to prepare a response if you receive an IRS notice.

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 so long as they may become material in the administration of any internal revenue law, which generally will be until the period of limitation expires for that return. 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.

There is no period of limitations to assess tax when a return is fraudulent or when no return is filed. 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. For filing a claim for credit or refund, the period to make the claim generally is 3 years from the date the original return was filed (or the due date for filing the return if the return was filed before that date), or 2 years from the date the tax was paid, whichever is later. For filing a claim for an overpayment resulting from a bad debt deduction or a loss from worthless securities, the time to make the claim is 7 years from when the return was due.

In tax years 2014 and later, you should keep records of your own and your family members’ health care insurance coverage, including records of employer provided coverage or premiums paid and type of coverage for private coverage, so you can show that you and your family members had and maintained required minimum essential coverage. If you are claiming the premium tax credit, you will need information about any advance credit payments you received through the Health Insurance Marketplace, the premiums you paid, and the type of coverage you obtained at the Marketplace. If you or any of your family members are exempt from minimum essential coverage, you should retain certificates of exemption you may receive from the Marketplace or any other documentation to support an exemption claimed on your tax return.

If you have employees, you must keep all your employment tax records for at least 4 years after the tax becomes due or is paid, whichever is later. For more information, see [Publication 15](http://www.irs.gov/publications/p15/index.html), *(Circular E), Employer's Tax Guide*.

If you are in business, there is no particular method of bookkeeping you must use. However, you must use a method that clearly and accurately reflects your gross income and expenses. The records should substantiate both your income and expenses. [Publication 583](http://www.irs.gov/publications/p583/index.html), *Starting a Business and Keeping Records*, and [Publication 463](http://www.irs.gov/publications/p463/index.html), *Travel, Entertainment, Gift, and Car Expenses*, provide additional information on required documentation for taxpayers with business expenses. [Publication 17](http://www.irs.gov/publications/p17/index.html), *Your Federal Income Tax for Individuals*, provides more information on recordkeeping requirements for individuals.

Excerpt from Publication 463 – Travel, Entertainment, Gift and Car Expenses Guide:

You should keep adequate records to prove your expenses or have sufficient evidence that will support your own statement. You must gen-erally prepare a written record for it to be considered adequate. This is because written evidence is more reliable than oral evidence alone. However, if you prepare a record on a computer, it is considered an adequate record. *You cannot deduct amounts that you approximate or estimate.*

**What Are Adequate Records?**

You should keep the proof you need in an ac-count book, diary, log, statement of expense,

trip sheets, or similar record. You should also keep documentary evidence that, together with your record, will support each element of an ex-pense.

**Documentary evidence.** You generally must have documentary evidence, such as receipts, canceled checks, or bills, to support your expenses

***Adequate evidence.*** Documentary evidence ordinarily will be considered adequate if it shows the amount, date, place, and essential character of the expense.

For example, a hotel receipt is enough to support expenses for business travel if it has all of the following information:

* The name and location of the hotel.
* The dates you stayed there.
* Separate amounts for charges such as lodging, meals, and telephone calls.

A restaurant receipt is enough to prove an expense for a business meal if it has all of the following information:

* The name and location of the restaurant.
* The number of people served.
* The date and amount of the expense.

If a charge is made for items other than food and beverages, the receipt must show that this is the case.

***Canceled check.*** A canceled check, together with a bill from the payee, ordinarily establishes the cost. However, a canceled check by itself does not prove a business expense without other evidence to show that it was for a business purpose.

**Table 5-1. How To Prove Certain Business Expenses; “Publication 463: Travel, Entertainment, Gift, and Car Expenses”**

| **IF you have expenses for . .** | **THEN you must keep records that show details of the following elements . . .** | | | |
| --- | --- | --- | --- | --- |
|  | **Amount** | **Time** | **Place or   Description** | **Business Purpose  Business Relationship** |
| **Travel** | Cost of each separate expense for travel, lodging, and meals. Incidental expenses may be totaled in reasonable categories such as taxis, fees and tips, etc. | Dates you left and returned for each trip and number of days spent on business. | Destination or area of your travel (name of city, town, or other designation). | Purpose: Business purpose for the expense or the business benefit gained or expected to be gained.    Relationship: N/A |
| **Entertainment** | Cost of each separate expense. Incidental expenses such as taxis, telephones, etc., may be totaled on a daily basis. | Date of entertainment. (Also see *Business Purpose*.) | Name and address or location of place of entertainment. Type of entertainment if not otherwise apparent. (Also see *Business Purpose*.) | Purpose: Business purpose for the expense or the business benefit gained or expected to be gained.   For entertainment, the nature of the business discussion or activity. If the entertainment was directly before or after a business discussion: the date, place, nature, and duration of the business discussion, and the identities of the persons who took part in both the business discussion and the entertainment activity.    Relationship: Occupations or other information (such as names, titles, or other designations) about the recipients that shows their business relationship to you.   For entertainment, you must also prove that you or your employee was present if the entertainment was a business meal. |
| **Gifts** | Cost of the gift. | Date of the gift. | Description of the gift. |  |
| **Transportation** | Cost of each separate expense. For car expenses, the cost of the car and any improvements, the date you started using it for business, the mileage for each business use, and the total miles for the year. | Date of the expense. For car expenses, the date of the use of the car. | Your business destination. | Purpose: Business purpose for the expense.    Relationship: N/A |

Table 5-2. **Daily Business Mileage and Expense Log Name:**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Odometer Readings** | | | | | | **Expenses** | | |
| **Date** | **Destination** (City, Town, or Area) | **Business Purpose** | **Start** | **Stop** | **Miles this trip** | | **Type**(Gas, oil, tolls, etc.) | **Amount** |
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| **Weekly Total** | | | | | | | | |
| **TotalYear-to-Date** | | | | | | | | |