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To Our Clients and Friends:

Maybe it's a good thing that the April 15th federal tax deadline coincides with the urge to spring clean. It feels good to throw out some of the financial records stuffing your filing cabinets. But before you head for the dumpster, make sure you're not disposing of records you may need. You don't want to be caught empty-handed if an IRS auditor contact you.

In general, you must keep records that support items shown on your individual tax return until the statute of limitations runs out – generally, three years from the due date of the return or the date you filed, whichever is later. That means that now you can generally throw out records for the 2009 tax year, for which you filed a return in 2010.

In most cases, the IRS can audit your return for three years. You can also file an amended return on Form 1040X during this time period if you missed a deduction, overlooked a credit or misreported income.

So, does that mean you're safe from an audit after three years? Not necessarily. There are exceptions. For example:

- If the IRS has reason to believe your income was understated by 25% or more, the statute of limitations for an audit increases to six years.
- If there is suspicion of fraud or you don't file a tax return at all, there is no time limit for the IRS.

Like most issues involving the IRS or other government agencies, there's no easy answer to that question. The IRS does not require you to keep records in any particular way. But here are some basic guidelines to follow for individuals:

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M E M B E R

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- **Completed tax returns.** Many tax advisors recommend that you hold onto copies of your finished tax returns forever. Why? So you can prove to the IRS that you actually filed. Even if you don't keep the returns indefinitely, you should hang onto them for at least six years after they are due or filed, whichever is later.
- **Backup records.** Any written evidence that supports figures on your tax return, such as receipts, expense logs, bank notices and sales records, should be generally kept for at least the three-year period.
- **Exceptions.** There are some cases when taxpayers get more than the usual three years to file an amended return. You have up to seven years to take deductions for bad debts or worthless securities, so don't toss out records that could result in refund claims for those items.
- **Real estate records.** Keep these for as long as you own the property, plus three years after you dispose of it and report the transaction on your tax return. Throughout ownership, keep records of the purchase, as well as receipts for home improvements, relevant insurance claims, and documents relating to refinancing. These help prove your adjusted basis in the home, which is needed to figure the taxable gain at the time of sale, or to support calculations for rental property or home deductions.
- **Securities.** To accurately report taxable events involving stocks and bonds, you must maintain detailed records of purchases and sales. These records should include dates, quantities, prices, dividend reinvestment, and investment expenses, such as broker fees. Keep these records for as long as you own the investments, plus the statute of limitations on the relevant tax returns.
- **Individual Retirement Accounts (IRAs).** The IRS requires you to keep copies of Forms 8606, 5498 and 1099-R until all the money is withdrawn from your IRA accounts. With the introduction of Roth IRAs, it's more important than ever to hold onto all IRA records pertaining to contributions and withdrawals in case you're ever questioned. If an account is closed, treat IRA records with the same rules as securities. Don't dispose of any ownership documentation until statute of limitations expires.
- **Issues affecting more than one year.** Records that support figures affecting multiple years such as carryovers of charitable deductions, net operating loss carrybacks or carryforwards or casualty losses, need to be saved until the deductions no longer have effect, plus seven years, according to IRS instructions.

These general recordkeeping guidelines are for tax purposes and were provided by Checkpoint Marketing. Please give us a call if you have any questions.

Howard I. Bleiwas and Associates, CPA, PLLC

BUSINESS RECORD GUIDELINES

- **Employee earnings.** Maintain for a minimum of four years, to meet various state and federal requirements.
- **Employee time cards.** Keep for at least three years if your business is subject to the *Fair Labor Standards Act* (engaged in interstate commerce); although it's a good practice for all businesses to keep the files for several years in case questions arise.
- **Personnel records.** Retain three years after an employee has been terminated.
- **Employment tax records.** Keep four years from the date the tax was due, or the date it was paid – whichever is longer.
- **Employee business expenses.** For travel and transportation expenses supported by mileage logs and other receipts, keep supporting documents for the three-year statute of limitations period.
- **Sales tax returns.** State regulations vary. For example, New York generally requires sales tax records to be retained for three years, while California requires four years, and Arkansas, six. Check with your tax adviser for the required record retention period for returns and supporting documents.
- **Business property.** Records used to substantiate the cost and deductions (such as depreciation, amortization and depletion) associated with business property must be maintained to determine the basis and gain (or loss) on the sale. Keep these for as long as you own the asset, plus seven years, according to IRS guidelines.