RG Alert Bulletin

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Certified Public Accountants & Business Advisors CPA

The Retention of Business Records

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Retaining and storing your income tax records is an important final step of your tax filing responsibility. This letter is a refresher on the rules for keeping your tax records, along with some information on storage options.

When determining how long to keep most of your income tax records, we look at the time frame over which the IRS can audit a tax return and assess a tax deficiency or you can file an amended return. For most taxpayers, this period is three years from the original due date of the return or the date the return is filed, if later. For example, if you filed your 2018 Form 1040 on or before April 15, 2019, the IRS has until April 15, 2022 to audit the return and assess a deficiency. However, if a return includes a substantial understatement of income, which is defined as omitting income exceeding 25% of the gross amount reported on the return, the statute of limitations period is extended to six years.

A good rule of thumb for keeping tax records is to add a year to the IRS statute of limitations period. Using this approach, you should keep your income tax records for a minimum of four years. State tax rules must be considered but holding records long enough for IRS purposes will normally suffice for state tax purposes, assuming the federal and state returns were filed at the same time.

Certain tax records, however, should be kept much longer than described above and, in some cases, indefinitely. Records substantiating the cost basis of property that could eventually be sold, such as investment property and business fixed assets, should be retained based on the record retention period for the year in which the property is sold.

Keep in mind that there may be non-tax reasons to keep certain tax records beyond the time needed for tax purposes. This might include documents such as insurance policies, leases, real estate closing statements, employment records, and other legal documents. Your attorney can provide additional guidance.

It's also important to know that the IRS permits taxpayers to store certain tax documents electronically. Although the rules are aimed primarily at businesses taxpayers, they apply to individual taxpayers as well. The rules permit taxpayers to convert paper documents to electronic images and maintain only the electronic files. Then, the paper documents can be destroyed. Certain requirements must be met to take advantage of an electronic storage system.

We hope this brief overview helps you understand the income tax record retention rules. If you have questions or would like to discuss any of the above information, please contact us.

Contact Us With Questions
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