

AccuBooks Tax
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Tax Record Retention

A common question posed by taxpayers is "How long should I keep my tax records?" Records may be needed to substantiate deductions to the IRS or a state/local taxing authority, or lenders may require copies of tax returns as a condition of lending money.

A good record retention system begins with the IRS period of limitations. This is the amount of time the IRS can audit a return and assess a tax deficiency, or an amended return can be filed. Generally, the period of limitations is three years after filing the return. However, the period may be extended for up to six years if there is substantial unreported income. For example, the period of limitation for a 2021 Form 1040 filed on or before April 15, 2022 extends to April 15, 2028. State and local period of limitations should also be considered when addressing record retention rules.

Using the IRS period of limitations as a guide, tax records should be kept for a minimum of three to six years. We recommend adopting the commonly accepted practice of adding one year to the period of limitations. *Thus, you should keep your tax records for a period of four to seven years.*

Some tax records should be kept longer than described above, and some should be kept permanently. Records substantiating basis of business or investment property should be kept until the property is sold or disposed. Once sold or disposed, the retention period rules for the year of sale should be followed. Tax returns, IRS or state/local taxing authority audit reports, business ledgers and financial statements are examples of records that should be kept indefinitely.

Once the length of time has been determined, there are other things to consider in regards to tax record retention such as record storage. For example, should a hardcopy be kept or does the IRS allow electronic storage of tax records? If electronic storage is allowed, what media is best for future retrieval? Electronic storage of certain tax records can meet the IRS recordkeeping rules, but certain requirements must be met. These questions, and the more extensive business record keeping rules, are outside the scope of this overview of record retention. If you wish to discuss these rules in more detail, please call 805.668.3250 to set up an appointment.

Sincerely,

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