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m e m o r a n d u m

TO: All Clients

FROM: Steven L. Jager, CPA

DATE: December, 2015 – but timeless

SUBJECT: **Maintenance of Adequate Tax Records**

What are good tax records?
For how long must these records be kept?

Should your tax return ever be challenged, your primary protection against deficiency assessments and penalties (which are NOT tax deductible) are good underlying records, which will demonstrate that an accurate and complete tax return was filed.

The responsibility to maintain these records is yours. Most tax records must be kept for as long as their contents are material in administering federal and state tax laws…records that support an item of income or deduction appearing on a return must be kept until the statute of limitations for the return expires. The IRS usually requires three years from the date the return was due or filed, or two years from the date the tax was paid, whichever occurs first. In the special cases where the taxpayer has understated his gross income by more than 25%, the statute of limitations is extended to six years. The California requirements are similar, although State law provides for a four-year period rather than three years.

In spite of this seemingly short period of time, however, in those instances where you may have a NET OPERATING LOSS in either the current or a prior year that is utilized or partially utilized in the current year, then the origination of that Net Operating Loss is subject to challenge, EVEN IF the tax year under scrutiny is otherwise "closed" under the statute of limitations! Potentially then, IF you or your business has a prior net operating loss, then the statute of limitations is open for as long and until that Net Operating Loss expires (usually 20 years)…

Adequate records could consist of paid receipts, canceled checks, sales slips, escrow statements, etc… In cases where original documents are not available, substitute records may be acceptable. One common example is the supporting evidence for business related travel and entertainment expenses. Because of the inherent difficulty in substantiating these expenditures, the government will usually accept a properly kept (i.e., contemporaneous) diary or travel log indicating destination, odometer readings and expenses incurred and paid.

With the advent of technology, the IRS will accept digital copies of scanned records as originals.

If you have any questions about these or other issues affecting your tax returns, I encourage you to discuss them with me.