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Importance of Good Record keeping in Taxes

Everyone knows you have to keep accurate records when it comes to reporting your taxes. But it is also a pain in the neck to have to keep accumulating receipts, check buds, invoices etc. for years "just in case". It is not uncommon to fund taxpayers going to see their accountants with a boxful of receipts, bills and other documents. After all, few people will have the patience and tenacity to keep accurate documentary evidence for every expense and income for years and years.

The truth is that today's insignificant document might just be tomorrow's all-important piece of evidence that validates certain expenses or claims. Keeping it might turn out to be vital. But is there a correct time limit you should keep your documents?

In reality, not every piece of documentary evidence is worth keeping. And those that are do not need to be kept forever. Generally, most tax experts agree that you should keep your documents for at least 4 years. But which should you keep?

Some documents are obviously necessary to keep, such as official receipts for tax-deductible expenses like charitable donations, contributions to your retirement plan and life insurance premium payments etc. But other types of documents may not be so straightforward, such as credit card statements, bank statements etc.

Some credit card companies say that credit card statements may be kept for as few as 45 days to as long as 7 years, depending on whether you use the statements to write off sales taxes or some other proof of expenses in your itemized deductions.

The reason you should keep your receipts and statements for at least 4 years is that the federal government can challenge your returns for up to three years and the state government can do so for up to four years.

IRS spokeswoman Karen Connelly concurs, adding that if you keep digital records, you should periodically check your data to see that it is not corrupted. Connelly said, "Obviously, the records are no good if you can't access them in the event of an exam or an audit."

But when it comes to an audit, it is a different story. The IRS has up to three years from the date you file your return to conduct an audit in the cases of genuine oversights. But if you have under-declared your income by at least 25%, they have up to 6 years to carry out an audit. Lastly, if the IRS suspects fraud, there is no time limit for the IRS to conduct an audit on your tax return.