

## Spring Cleaning? Be Careful!

by Gary Haworth, CPA

Discarding old things is usually a GOOD THING, but be careful when it comes to your accounting and tax records. These records are “those” boxes in the corner of the office; stacked in the rafters, or taking up space in your basement or garage.

The fact is – many of these records can and should be thrown out (destroyed!). However, it is important to understand that some of your records need to be kept forever and others for a few years. Below are some guidelines to help you feel more comfortable when you take on that task of SPRING CLEANING.

These guidelines are based on information published by the American Institute of Certified Public Accountants. It may not be all inclusive. For questions about specific applications, please consult with your accountant or tax preparer. (Retention time is measured from the later of tax return due date or filing date, plus any amendment or extension date).

### Permanent

- Canceled checks for taxes, property purchases and contracts
- Chart of Accounts
- Contracts and leases (in effect)
- Copyrights, patents and related papers
- Corporate stock and bond records, charters, bylaws, corporate minute books, transfer registers, options, S Corporation election IRS approval letter, etc.
- Financial statements (year end)
- Fixed asset records and depreciation records
- General ledger and journals
- Income Tax returns with supporting documentation
- Other tax returns – Payroll, Sales & Use Tax.
- Real Estate Records (deeds, mortgages, appraisals, bills of sale, etc)
- Tax and legal correspondence

### Seven Years (basically, all records pertaining to day-to-day business)

- Accident reports / settled insurance claims
- Canceled checks (exception noted above)
- Canceled stock & bond certificates and expired option records

- Employee earnings summaries and payroll/personnel records
- Expense reports, analyses, distribution schedules and payments
- Expired contracts, mortgages, notes and leases
- Garnishments
- Group disability and other insurance safety reports
- Inventory records of products, materials and supplies
- Invoices to customers and from suppliers
- IRS Form 8300 – Report of Cash Transfers Over \$10,000 Received in a Trade or Business
- Cost ledgers and other cost accounting records and reports
- Purchase orders, shipping and receiving records
- Sales records
- Scrap and salvage ledgers
- Subsidiary ledgers and schedules for accounts payable, notes payable, accounts receivable and notes receivable
- Withholding tax statements

#### Three Years (basically, all detailed supporting records)

- Bank statements and deposit slips
- Employment applications
- Expired insurance policies
- Internal audit reports
- Internal reports (financials, etc)
- Payroll time sheets or cards
- Petty cash and cash paid-out vouchers
- Physical inventory tags and control records
- Records in support of customer guarantees and warranties
- Sales commission reports
- Bank reconciliations
- General business correspondence

#### Other Miscellaneous Records

- Real and Personal Property – Three years beyond the time the property is in use
- Passive Losses – If a taxpayer is unable to currently deduct a loss from a passive activity, they are permitted to carry forward the loss indefinitely until the loss is used to offset passive income or the passive activity is

disposed of in a taxable transaction. Carry forward losses are computed on worksheets provided by the IRS and these worksheets should be retained until at least three years after the losses are used.

- Nondeductible IRA Contributions – Retain all the tax records that pertain to such contributions until the IRA's are fully distributed.
- Principal Residence – Records verifying a taxpayer's basis in his/her principal residence must be kept until he/she is sure they will no longer be an issue. Such records pertain to original cost and capital improvements.

*Gary Haworth, CPA, is the owner of Haworth & Company, Ltd., and a member of the Small Business Resource Group, which helps small business owners with their bookkeeping & accounting, payroll, tax preparation and consulting. He started his practice over 20 years ago, growing from one person to now more than 30 employees and three locations. He can be reached at [ghaworth@haworthco.com](mailto:ghaworth@haworthco.com).*