

Rumbold Tax Advisory

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RECORDKEEPING REQUIREMENTS

The income and deductions entered on your tax return must be based on actual values taken from your recordkeeping system and documents. This is the law. If your tax return is examined by the taxing authorities, you must be able to substantiate the entries with third party documents. The types of documents you must retain may depend on the type of expense. Please contact us if you have any questions about the following guidelines for maintaining records.

Items of Income. You should retain all Forms 1099 and W-2. For business income you should retain the following as applicable: cash register tapes, bank deposit slips, receipt books, invoices, credit card charge slips, credit card statements and bank account statements. For any documents that are not clear as to the payee or purpose of the income, annotate the documents with an explanation.

IRC §6001. NOTICE OR REGULATIONS REQUIRING RECORDS, STATEMENTS, AND SPECIAL RETURNS.

Every person liable for any tax imposed by this title, or for the collection thereof, shall keep such records, render such statements, make such returns, and comply with such rules and regulations as the Secretary may from time to time prescribe. Whenever in the judgment of the Secretary it is necessary, he may require any person, by notice served upon such person or by regulations, to make such returns, render such statements, or keep such records, as the Secretary deems sufficient to show whether or not such person is liable for tax under this title. The only records which an employer shall be required to keep under this section in connection with charged tips shall be charge receipts, records necessary to comply with section 6053(c), and copies of statements furnished by employees under section 6053(a).

Deductions and Expenses. Generally, for every item of expense you must have two forms of documentation – 1) proof that you incurred the expense such as a receipt that clearly shows the purpose of the expense and who it was paid to, and 2) proof that you paid the expense such as a cancelled check or credit card receipt and statement. You should retain as applicable: cancelled checks or images of the same, cash register tapes, credit card statements, bank account statements, invoices, account statements, receipts, and petty cash slips. For any documents that are not clear as to the purpose of the expense, annotate the documents with an explanation. Note: check carbon copies are NOT acceptable as proof of payment. Credit card receipts are not acceptable without the monthly statement that shows the expense and you as the owner of the credit card.

Travel and Entertainment Expenses. You must retain the original statement for all hotel expenses. The credit card slip alone is not sufficient. You can use the per diem rate published by the IRS for meals and incidentals and generally you don't have to keep receipts for meals under \$75 but you must maintain a trip report with the details of each out of town trip. For vehicle deductions, you must maintain a mileage log. Contact us for an Excel template to record you mileage. See IRS Publication 463 or call us for more details.

Charitable Contributions. Cash contributions and contributions of personal property made to qualified charitable organizations are deductible as itemized deductions. The IRS maintains a list of such organizations on its website. Generally, contributions to foreign charitable organizations, needy individuals, political parties and political action committees are not deductible. Charitable contributions are limited to either 50%, 30%, or 20% of adjusted gross income depending on the type of organization and contribution. Any excess can be carried forward for five years. Documentation requirements for any single cash contribution of less than \$250 are either a bank record (cancelled check or statement showing the name of the charity), or a statement from the charity. For any single cash contribution of \$250 or more, both a bank record and a statement from the charity are required. For non-cash contributions, you must have a receipt and a detailed list of the items donated with fair market values assigned to each item. It is recommended that photos of the items be maintained to demonstrate that they are in good used condition. A written appraisal is required for donations of any property with a value over \$5,000. There are additional specific rules for donations of motor vehicles.

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IRA Contributions. You must keep all statements showing contributions, rollovers, and conversions to traditional and Roth IRAs. These statements must be maintained until four years after all IRA accounts are liquidated. This could mean that you have to keep the statements well into retirement, essentially forever.

Spousal and Child Support. If you are paying alimony or child support, you should keep all proof of payment documents indefinitely. If you are having wage garnishment for these items, you should keep the individual pay stub statements indefinitely.

Health Insurance Reporting. Beginning with your 2014 federal tax return, your tax return must contain information about health insurance coverage for you, any spouse, any dependents claimed and others covered by your plan. You must maintain any and all documents such as 1095-A, 1095-B, 1095-C or their equivalents that show your health insurance coverage for the tax year. If the aforementioned documents are not provided to you, you must still have records of any health insurance coverage for every month of the year.

Vehicle Expenses. If you are reporting expenses for use of your vehicle in a charitable activity, business activity, as part of your employment or for medical deductions, you must maintain a mileage log. The mileage log must have an entry for each such use showing the date, place, purpose and miles. You must also maintain proof of the total miles driven during the year with repair receipts showing the mileage or other means. If you are using the actual expense method, you must maintain receipts for all expenses including fuel, repairs, maintenance, insurance, registration, etc. We can supply you with a mileage log template and expense worksheet if you ask.

Bank Accounts. If you are reporting any business activity you should have separate checking accounts and credit card accounts. You should not commingle personal and business expenses and income in the same bank account. All transfers of money into and out of bank accounts must be documented as to the source with any necessary third party documents.

Rounding. The use of round numbers for deductions, business expenses and mileage is an audit risk. Round numbers such as \$10,000 miles or \$2,000 for cell phone are indications that the value is an estimate. Estimates are not permitted and may trigger an audit.

Record Retention. Generally you must retain all records for four years after the filing of your tax return. However, for assets that are being depreciated, used in business or investment assets (stocks and bonds), you must retain the records for five years after the year in which the asset is sold or disposed of. If you have incurred a Net Operating Loss (NOL) for any year, you must keep all documents for the year generating the loss and for all carryback and carryforward years until five years after the loss is extinguished. Many people retain their records and tax returns forever. This can be simplified by scanning and retaining digital copies with proper backup methods.

Document Retention Methods. Thermal paper receipts tend to fade after several months. If any documents are not readable, the expense or deduction may be denied under examination by the taxing authorities. Scanned documents saved in an electronic format such as PDF are acceptable and will not fade or be susceptible to damage. Be sure to back up all electronic document storage at another physical location to safeguard against computer failure and catastrophe.

This is only a brief synopsis of documentation and recordkeeping requirements for tax returns. You are encouraged to ask questions about your specific situation.