

What Business Records to Keep

There are many reasons to keep records. Good records will help you:

- ✓ Monitor the progress of the business
- ✓ Prepare financial statements
- ✓ Identify sources of receipts
- ✓ Keep track of expenses
- ✓ Prepare tax returns
- ✓ Support items reported on tax returns

The guidelines below give retention periods for the most common business records. Call us if you would like more information or assistance with your record retention program.

Accounting Records	Retention Period	Corporate Records	Retention Period
Accounts payable	7 years	Board minutes	Permanent
Accounts receivable	7 years	Bylaws	Permanent
Audit Reports	Permanent	Business licenses	Permanent
Chart of accounts	Permanent	Contracts - major	Permanent
Depreciation schedules	Permanent	Contracts - minor	Life + 4 years
Expense records	7 years	Insurance policies (3)	Life + 3 years
Financial statements (annual)	Permanent	Leases/mortgages	Permanent
Fixed asset purchases	Permanent	Patents/trademarks	Permanent
General Ledger	Permanent	Shareholder records	Permanent
Inventory records (1)	7 years	Stock registers	Permanent
Loan payment schedules	7 years	Stock transactions	Permanent
Purchase orders (1 copy)	7 years		
Sales records	7 years	Real Property Records	Retention Period
Tax returns	Permanent	Construction records	Permanent
		Leasehold improvements	Permanent
		Lease payment records	Life + 4 years
Bank Records	Retention Period	Real estate purchases	Permanent
Bank reconciliations	2 years		
Bank statements	7 years		
Cancelled checks	7 years		
Electronic payment records	7 years		
Employee Records	Retention Period		
Benefit plans	Permanent		
Employee files (ex-employees) (2)	7 years		
Employment applications	3 years	(1) Permanent for LIFO system	
Employment taxes	7 years	(2) Or statute of limitations for employee lawsuits	
Payroll records	7 years	(3) Check with your agent, liability for prior years can vary	
Pension/profit sharing plans	Permanent		

Electronic Records

The Internal Revenue Service provides guidance to taxpayers that maintain books and records by using an electronic storage system that either images their hardcopy (paper) books and records, or transfers their computerized books and records to an electronic storage media, such as an optical disk. This guidance is detailed in IRS Revenue Procedure 97-22.

The provisions require that any taxpayer subject to income tax, except for wage-earners and farmers, must keep such books and records as are sufficient to substantiate amounts required to be shown in tax or information returns. These books and records must be kept available at all times for inspection by the IRS, and must be retained for as long as they "may become material in the administration of any internal revenue law" (generally 3 years, or unlimited if fraud is suspected).

An electronic storage system is defined as a system to prepare, record, transfer, index, store, preserve, retrieve, and reproduce books and records by either:

1. Electronically imaging hardcopy documents to an electronic storage media (such as by scanning),
or
2. Transferring computerized books and records to a disk, which allows books and records to be viewed or reproduced without the use of the original program.

General Requirements

1. An electronic storage system must ensure an accurate and complete transfer of the hardcopy or computerized books and records to an electronic storage media.
2. An electronic storage system must include:
 - a. reasonable controls to ensure the integrity, accuracy, and reliability of the system;
 - b. reasonable controls to prevent and detect the unauthorized alteration or deterioration of electronically stored books and records;
 - c. an inspection and quality assurance program, including regular evaluations of the system;
 - d. a retrieval system that includes an indexing system; and
 - e. the ability to reproduce legible hardcopies or displays on a video display terminal.
3. The information maintained in the system must provide support for the taxpayer's books and records.
4. For each electronic storage system used, the taxpayer must maintain and make available to the IRS complete descriptions of all procedures relating to its use and the indexing system.
5. The indexing system must permit the identification and retrieval for viewing or reproducing of relevant books and records maintained in the electronic storage system.
6. At the time of an examination, the taxpayer must retrieve and reproduce electronically stored books and records and provide the IRS with the resources necessary to locate, retrieve, read, and reproduce any electronically stored books and records

For more details or a copy of IRS Revenue Procedure 97-22, please contact our office.