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RICHARD C. GORDON, CPA, ABV, CFF, CFE
KATHLEEN M. ALAMEDA, CPA (Retired)

Tax Recordkeeping Requirement

Which records are important, how and why do you need to keep them?

Why… Without tax records, you can lose valuable deductions by forgetting to list expenses on your return or having substantiated items disallowed if you are audited.

How Long… Generally, returns can be audited up to three years after filing. However, if income is under-reported by more than 25%, the Internal Revenue Service can collect underpaid taxes up to six years. California's statute is eight years. Therefore, you should generally plan to maintain your records for a minimum of nine years (eight beyond the tax return filing date).

What… The supporting documents the IRS reviews include bank statements, cancelled checks, loan documents, receipts, real estate records, and forms such as W-2s, 1099s and 1098s. You have the burden of proof in an audit, so be prepared. Here is a general list for individual taxpayers; those with a business have additional record keeping requirements.

- Records of income received
- Expense items, especially work-related expenses
- Home improvements, sales and refinances
- Investment purchases and sales information
- The tax basis of gifted and inherited property
- Specific uses of loan proceeds
- Medical expenses
- Charitable contributions
- Interest and taxes paid
- Records on nondeductible IRA contributions

Electronic records… Electronic copies of records are fine, but don't depend upon third parties to maintain these records for you. In an audit, it may be very costly or impossible to obtain bank statements, for instance, from six years ago. Be sure to keep paper or pdf copies of these records safe and in a format you can retrieve in the future.