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10 RECORDKEEPING TIPS FOR YOUR TAX FILES

By Victor Sy, CPA

1. IRS wants you to **keep good records** to document your income and support your expenses. It does not require you to keep records in any specific manner, but there are proven ways to keep good files. Read on.
2. There are two basic types of filers: the rat pack that hoards files for the millennium and another who throws them all. I have seen both in my three decades of representing audited taxpayers before the IRS. I can illustrate statute of limitation to the former but get nervous when the latter type is audited. There's this IRS motto: **No records, no deductions**.
3. **Designate a place** for filing financial, tax, and accounting records. That could be a small office at home, bedroom, living, garage *OR* any other place - but not some at the home office, some at the bedroom, some at the garage, and some more at the...
4. **Centralize your tax records in a filing cabinet**. Gather records from different areas of the house and spend a weekend or two to organize your files into a filing cabinet.
5. Assign a drawer for **annual files**. Depending on the volume of your mess, I mean your files, you may keep 3 to 4 years in a drawer or keep each year in a separate drawer. Annual files are records that affect one certain year. Examples are receipts and acknowledgment letters for charity, office supplies for business, or cleaning supplies for rental.
6. Assign a drawer for **permanent files**. These are files that you want to keep forever - or almost permanently. Examples are deeds to house and rentals, escrow closing statements on purchase or disposition of properties, DMV pink slips, insurance policies, and trust documents.
7. Another drawer should be assigned to **bank records** - unused checks, bank statements, and related records.
8. Assign a drawer for **junk**. Yes, junk. This may even be the most active drawer among your storage files. This drawer is for files that you don't have time to classify, suspense files that you don't know where to file, and just plain junk files. At least, you contain your junk in this one drawer, assuming of course that it doesn't overflow into another similar drawer.
9. **Keep tax supporting documents for least four years** (three years for federal and four for state).
10. If you are a small business owner, **keep business records** (employment tax records, cost of goods sold, and expenses for at least four years).