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Simply to Help —Helping You
To Keep More Of What You
Earn and Helping You To
Protect What You Keep



- Help To Keep Your
Life In Balance

November 17, 2002

Regarding - Recordkeeping

RECORD RETENTION PERIOD

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EXECUTIVE SUMMARY

WHY RETAIN DOCUMENTS?

When you use Bob Parrish CPA, P.C. as your tax and financial adviser a side benefit is that Bob Parrish CPA, P.C. retains copies, places those copies in a format suitable for recording on a computer CD, and furnishes those on a CD for your own use. This service is provided at no additional cost to you. Obviously, you do not furnish all records to the firm and therefore many records will not be on the CD. If you would like Bob Parrish CPA, P.C. to place other documents on a computer CD please call today for pricing that service.

Retaining documents is important for more than one reason:

- Internal Revenue Service Examination
- State Agency Examination
- Wage & Hour Examination
- Workers' Compensation Examination
- Immigration & Naturalization Compliance
- Loan Agreements
- Contracts Entered Into
- Asset Protection
- Litigation Protection
- Insurance Claims

There are - simply stated - far too many circumstances for the use of the documents to be listed.

If you need assistance in finding records, or the assimilation of records that might substitute for destroyed or lost documents call Bob Parrish CPA, P.C.

CAUTIONS - CAVEATS – WARNINGS

The retention period will be changed if circumstances change. For example:

1. The retention period does not commence the time period until the jurisdiction received the required filing
2. If any payment required is not paid, the retention period will be lengthened
3. Fraud (although unintentional) will lengthen the time period
4. Some circumstances do not start the time period until the "act" is discovered by an injured party

There are - simply stated - far too many circumstances to list all the potential circumstances changing the retention period. Know the risk - dollar amount, loss of licenses, loss of freedoms, and weigh those risks with the cost of the retention. Perhaps using Bob Parrish CPA, P.C. to digitize the important documents for archiving on a computer CD, on the Bob Parrish CPA, P.C. computers or on your computer will reduce the costs and headaches so the retention periods can be less burdensome.

RETENTION PERIOD OF VARIOUS DOCUMENTS

| Documents | Retention Period (Years) | About | Sample |
|------------------------------------------------------------------------------------------------------------------------------|--------------------------|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| Accident reports and claims (settled cases) | 7 | | |
| Accounts payable ledgers and schedules | 7 | | |
| Accounts receivable ledgers and schedules | 7 | | |
| Audit reports of accountants | Permanent | | |
| Bank reconciliation | 1 | | Bank reconciliation report Bank Reconciliation Bank Reconciliation |
| Capital stock and bond records; ledgers, transfer registers, stubs showing issues, record of interest coupons, options, etc. | Permanent | | |
| Cash books | Permanent | | |
| Cash - Daily Report | 3 | | Daily Cash Report - Simplified Cash Closing Daily Cash Report Daily Cash Closing |
| Charts of accounts | Permanent | | |

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 Taxpayer Advocate, Asset Protection Coach, Cost Containment Counselor, Investment & Acquisition/Merger Analyst; Management Consultant; Tax Preparer (Income, All States, Sales, Payroll, Estate), Accountant, Auditor, Financial & Estate Planner, Bankruptcy Reporting, Probate Reporting

●Retention Period of Various Documents

| | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|--|--|
| Checks (cancelled but see exception below) | 7 | | |
| Checks (cancelled for important payments, i.e., taxes, purchases of property, special contracts, etc.) Checks should be filed with the papers pertaining to the underlying transaction | Permanent | | |
| Contracts and leases (expired) | 7 | | |
| Contracts and leases still in effect | Permanent | | |
| Correspondence (routine) with customers or vendors | 1 | | |
| Correspondence (general) | 3 | | |
| Correspondence (legal and important matters only) | Permanent | | |
| Deeds, mortgages, and bills of sale | Permanent | | |
| Depreciation schedules | Permanent | | |
| Duplicate deposit slips | 3 | | |
| Employee personnel records (after termination) | 3 | | |
| Employment applications | 3 | | |
| Expense analysis and expense distribution schedules | 7 | | |
| Financial statements (end-of-year, other months optional) | Permanent | | |
| General ledgers (and end-of-year trial balances) | Permanent | | |
| Insurance policies (expired) | 3 | | |
| Insurance records, current accident reports, claims, policies, etc. | Permanent | | |

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●Retention Period of Various Documents

| | | | |
|-------------------------------------------------------------------------------------------------------------------------------------|-----------|--|--|
| Internal audit reports (in some situations, longer retention periods may be desirable) | 3 | | |
| Internal reports (miscellaneous) | 3 | | |
| Inventories of products, materials, and supplies | 7 | | |
| Invoices to customers | 7 | | |
| Invoices from vendors | 7 | | |
| Journals | Permanent | | |
| Minute books for directors and stockholders, including by-laws and charters | Permanent | | |
| Notes receivable ledgers and schedules | 7 | | |
| Option records (expired) | 7 | | |
| Payroll records and summaries, including payments to pensioners | 7 | | |
| Petty cash vouchers | 3 | | |
| Physical inventory tags | 3 | | |
| Plant cost ledgers | 7 | | |
| Property appraisals by outside appraisers | Permanent | | |
| Property records- including costs, depreciation reserves, end-of-year trial balances, depreciation schedules, blueprints, and plans | Permanent | | |
| Purchase orders (except purchasing department copy) | 1 | | |
| Purchase orders (purchasing department copy) | 7 | | |
| Receiving sheets | 1 | | |

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●Retention Period of Various Documents

| | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|--|--|
| Requisitions | 1 | | |
| Sales records | 7 | | |
| Savings bond registration records of employees | 3 | | |
| Scrap and salvage records (Inventories, sales, etc.) | 7 | | |
| Stenographer's notebooks | 1 | | |
| Stock and bond certificates (cancelled) | Permanent | | |
| Stockroom withdrawal forms | 1 | | |
| Subsidiary ledgers | 7 | | |
| Tax returns and worksheets, revenue agent's reports, and other documents relating to determination of income tax liability | Permanent | | |
| Time books | 7 | | |
| Trade mark registrations | Permanent | | |
| Voucher register and schedules | 7 | | |
| Vouchers for payments to vendors, employees, etc. (includes allowances and reimbursement of employees, officers, etc. for travel and entertainment expenses) | 7 | | |

INDIVIDUALS - TYPES OF RECORDS TO KEEP

KINDS OF RECORDS TO KEEP

The IRS does not require you to keep your records in a particular way. Keep them in a manner that allows you and the IRS to determine your correct tax.

You can use your checkbook to keep a record of your income and expenses. In your checkbook, you should record amounts, sources of deposits, and types of expenses. You also need to keep documents, such as receipts and sales slips that can help prove a deduction.

You should keep your records in an orderly fashion and in a safe place. Keep them by year and type of income or expense. One method is to keep all records related to a particular item in a designated envelope.

In this section, you will find guidance about basic records that everyone should keep. The section also provides guidance about specific records you should keep for certain items.

COMPUTERIZED RECORDS

Many retail stores sell computer software packages that you can use for recordkeeping. These packages are relatively easy to use and require little knowledge of bookkeeping and accounting.

If you use a computerized system, you must be able to produce legible records of the information needed to determine your correct tax liability. In addition to your computerized records, you must keep proof of payment, receipts, and other documents to prove the amounts shown on your tax return.

COPIES OF TAX RETURNS

You should keep copies of your tax returns as part of your tax records. They can help you prepare future tax returns, and you will need them if you file an amended return. Copies of your returns and other records can be helpful to your survivor or the executor or administrator of your estate.

If necessary, you can request a copy of a return and all attachments (including Form W-2) from the IRS by using Form 4506, *Request for Copy or Transcript of Tax Form*. For information on the cost and where to file, see the Form 4506 instructions.

BASIC RECORDS

Basic records are documents that everybody should keep. These records prove your income and expenses. If you own a home or investments, your basic records should contain documents related to those items. This table lists documents you should keep as basic records. Following the table are examples of information you can get from these records.

| FOR items concerning your... | KEEP as basic records... |
|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Income | <ul style="list-style-type: none"> ▶ Form(s) W-2 ▶ Form(s) 1099 ▶ Bank statements ▶ Brokerage statements ▶ Form(s) K-1 |
| Expenses | <ul style="list-style-type: none"> ▶ Sales slips ▶ Invoices ▶ Receipts ▶ Canceled checks or other proof of payment |
| Home | <ul style="list-style-type: none"> ▶ Closing statements ▶ Purchase and sales invoices ▶ Proof of payment ▶ Insurance records <p>Form 2119 (if you previously sold a home)</p> |
| Investments | <ul style="list-style-type: none"> ▶ Brokerage statements ▶ Mutual fund statements ▶ Form(s) 1099 ▶ Form(s) 2439 |

INCOME

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Your basic records prove the amounts you report as income on your tax return. Your income may include wages, dividends, interest, and partnership or S corporation distributions. Your records also can prove that certain amounts are not taxable, such as tax-exempt interest.

EXPENSES

Your basic records prove the expenses for which you claim a deduction (or credit) on your tax return. Your deductions may include alimony, charitable contributions, mortgage interest, and real estate taxes. You may also have childcare expenses for which you can claim a credit.

HOME

Your basic records should enable you to determine the basis of your home. You need this information to determine if you have a gain or loss when you sell your home. Your records should show the purchase price, settlement or closing costs, and the cost of any improvements. They may also show any casualty losses deducted, insurance reimbursements for casualty losses, and postponed gain from the sale of a previously owned home.

For information on which settlement or closing costs are included in the basis of your home, see [Publication 530](#), *Tax Information for First-Time Homeowners*. For information on basis, including the basis of property you receive other than by purchase, see Publication 551, *Basis of Assets*.

When you sell your home, your records should show the sales price and any selling expenses, such as commissions. For information on selling your home, see [Publication 523](#), *Selling Your Home*.

INVESTMENTS

Your basic records should enable you to determine your basis in an investment and whether you have a gain or loss when you sell it. Investments include stocks, bonds, and mutual funds. Your records should show the purchase price, sales price, and commissions. They may also show any reinvested dividends, stock splits and dividends, load charges, and original issue discount (OID).

For information on stocks and bonds, see [Publication 550](#), *Investment Income and Expenses*. For information on mutual funds, see [Publication 564](#), *Mutual Fund Distributions*.

PROOF OF PAYMENT

One of your basic records is proof of payment. You should keep these records to support certain amounts shown on your tax return. Proof of payment alone is not proof that the item claimed on your return is allowable. You should also keep other documents that will help prove that the item is allowable.

Generally, you prove payment with a canceled check or cash receipt. If you do not have a canceled check because your bank does not return canceled checks or if you make payments by credit card or electronic funds transfer, you may be able to prove payment with an account statement.

If you make payments in cash, you should get a dated and signed receipt showing the amount and the reason for the payment.

ACCOUNT STATEMENTS

You may be able to prove payment with a legible financial account statement prepared by your bank or other financial institution. These statements are accepted as proof of payment if they show the items in the following table.

| IF payment is by... | THEN the statement must show the... |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Check | <ul style="list-style-type: none"> ▶ Check number ▶ Amount ▶ Payee's name ▶ Date the check amount was posted to the account by the financial institution |
| Electronic funds transfer | <ul style="list-style-type: none"> ▶ Amount transferred ▶ Payee's name ▶ Date the transfer was posted to the account by the financial institution |
| Credit card | <ul style="list-style-type: none"> ▶ Amount charged ▶ Payee's name ▶ Transaction date |

Pay statements. If you have deductible expenses withheld from your paycheck, such as union dues or medical insurance premiums, keep your pay statements as proof of payment of these expenses.

SPECIFIC RECORDS

This section is an alphabetical list of some items that require specific records in addition to your basic records.

ALIMONY

If you receive or pay alimony, you should keep a copy of your written separation agreement or the divorce, separate maintenance, or support decree. If you pay alimony, you will also need to know your former spouse's social security number. For information on alimony, see [Publication 504, Divorced or Separated Individuals](#).

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BUSINESS USE OF YOUR HOME

You may be able to deduct certain expenses connected with the business use of your home. You should keep records that show the part of your home that you use for business and the expenses related to that use. For information on how to allocate expenses between business and personal use, see [Publication 587](#), *Business Use of Your Home*.

CASUALTY AND THEFT LOSSES

To deduct a casualty or theft loss, you must be able to prove that you had a casualty or theft. Your records also must be able to support the amount you claim.

For a **casualty loss**, your records should show:

- The type of casualty (car accident, fire, storm, etc.) and when it occurred and
- That you were the owner of the property.

For a **theft loss**, your records should show:

- When you discovered your property was missing,
- That your property was stolen, and
- That you were the owner of the property.

For more information, see [Publication 547](#), *Casualties, Disasters, and Thefts (Business and Nonbusiness)*. For a workbook designed to help you figure your loss, see [Publication 584](#), *Nonbusiness Disaster, Casualty, and Theft Loss Workbook*.

CHILD CARE CREDIT

You must give the name, address, and taxpayer identification number for all persons or organizations that provide care for your child or dependent. You can use Form W-10 or various other sources to get the information from the care provider. Keep this information with your records. For information on the credit, see [Publication 503](#), *Child and Dependent Care Expenses*.

CONTRIBUTIONS

The kinds of records you must keep for charitable contributions depend on the amount of the contribution and whether the contribution is in cash. For information on contributions, see [Publication 526](#), *Charitable Contributions*.

Contributions from which you benefit

Generally, if you make a charitable contribution that is more than \$75 and is partly for goods or services, the organization must give you a written statement that you should keep.

Cash

Cash contributions include those paid by cash, check, credit card, or payroll deduction. For each cash contribution, you must keep one of the following:

- A canceled check or a financial account statement,
- A receipt from the organization showing the name of the organization, the amount, and date of the contribution, or
- Other reliable written records that are reasonable under the circumstances and that include the name of the organization, the amount, and the date of the contribution.

Contributions of \$250 or more - You can deduct a contribution of \$250 or more only if you have a written acknowledgment of your contribution from the organization.

Out-of-pocket expenses

You should keep records of your out-of-pocket expenses when you perform services for a charitable organization. You can record these expenses in a diary. For example, if you use your car when doing volunteer work, you should record the name of the organization and the unreimbursed gas and oil expenses directly related to the volunteer work. If you do not want to keep records of your actual expenses, you can keep a log of the miles you drove your car for the charitable purpose and use the standard mileage rate shown in [Publication 526](#). You should also keep records of any parking fees, tolls, taxi fares, and bus fares.

Property

For each contribution of property, you must keep a receipt from the organization showing:

- The name of the organization,
- The date and location of the contribution, and
- A reasonably detailed description of the property.

A letter or other written communication from the organization containing the above information will serve as a receipt.

You also must keep reliable written records for each item of donated property. These records must include the:

- Fair market value of the property at the time of the contribution,
- Cost or other basis of the property, and
- Terms of any conditions attached to the contribution.

For more information on donated property, see [Publication 526](#).

EMPLOYEE BUSINESS EXPENSES

If you have employee business expenses, see [Publication 463](#), *Travel, Entertainment, Gift, and Car Expenses*, for a discussion of what records to keep.

GAMBLING WINNINGS AND LOSSES

You must keep an accurate diary of your winnings and losses that includes the:

- Date and type of gambling activity,
- Name and address of the gambling establishment,
- Names of other persons present with you at the gambling establishment, and
- Amount you won or lost.

In addition to your diary, you should keep other documents. See the discussion related to gambling losses in [Publication 529](#), *Miscellaneous Deductions*, for documents you should keep.

INDIVIDUAL RETIREMENT ARRANGEMENTS (IRAs)

Keep copies of the following forms and records until all distributions are made from your IRA(s).

- Form 5498 or similar statement received for each year showing contributions you made, distributions you received, and the value of your IRA(s),
- Form 1099-R received for each year you received a distribution, and
- Form 8606 for each year you made a nondeductible contribution to your IRA or received distributions from an IRA if you ever made nondeductible contributions.

For a worksheet, you can use to keep a record of yearly contributions and distributions, see [Publication 590](#), *Individual Retirement Arrangements (IRAs) (Including SEP-IRAs and Simple IRAs)*.

MEDICAL AND DENTAL EXPENSES

In addition to records you keep of regular medical expenses, you should keep records on transportation expenses that are primarily for and essential to medical care. You can record these expenses in a diary. You should record gas and oil expenses directly related to that transportation. If you do not want to keep records of your actual expenses, you can keep a log of the miles you drive your car for medical purposes and use the standard mileage rate. You should also keep records of any parking fees, tolls, taxi fares, and bus fares.

For information on medical expenses and the standard mileage rate, see [Publication 502](#), *Medical and Dental Expenses*.

MORTGAGE INTEREST

If you paid mortgage interest of \$600 or more, you should receive Form 1098, *Mortgage Interest Statement*. Keep this form and your mortgage statement and loan information in your records. For information on mortgage interest, see [Publication 936](#), *Home Mortgage Interest Deduction*.

PENSIONS AND ANNUITIES

Use the worksheet in your tax return instructions to figure the taxable part of your pension or annuity. Keep a copy of the completed worksheet until you fully recover your contributions. For information on pensions and annuities, see [Publication 575](#), *Pension and Annuity Income*.

TAXES

Your Form W-2 shows the state income tax withheld from your wages. If you made estimated state income tax payments, you need to keep a copy of the form. You also need to keep copies of your state income tax returns. If you received a refund of state income taxes, the state may send you Form 1099-G, *Certain Government Payments*.

Keep mortgage statements, tax assessments, or other documents as records of the real estate and personal property taxes you paid.

TIPS

You must keep a daily record to accurately report your tips on your return. You can use Form 4070A, *Employee's Daily Record of Tips*, which is found in Publication 1244, *Employee's Daily Record of Tips and Report to Employer*, to record your tips. For information on tips, see [Publication 531](#), *Reporting Tip Income*.

FINAL STATEMENT

I would be remiss in not reminding you what tax records you should keep and how long you should keep them. When organizing your files, please remember these general rules concerning your records:

- **Income Tax Returns and Related Items:** Keep all federal and state income tax returns and supporting documents (i.e., those items confirming your income and/or deductions) for a minimum of three years after the return's filing date. The more prudent route is to keep these returns and documents for six years. Why? The IRS can assess additional taxes within three years of its filing date, but has up to six years in which to make a tax assessment if the IRS determines that a substantial amount of income has been omitted from the return.

- **Mailing Receipts:** Keep with your file copy of each tax return the U.S. Postal Service receipt -- i.e., the registered mail receipt -- showing the date the return was mailed. If your return is filed electronically, keep a copy of the electronic filing confirmation with a printed copy of the return. In the event the return is misplaced or lost, this documentation will save you from penalties.

- **Residential Property Records:** Because you can indefinitely roll over gain from the sale of your principal residence to the purchase of a replacement home, keep settlement records from all of your home purchases and sales in a safe place. In addition, keep records of the amounts that you spend for home improvements with this file. These records will provide documentation of your basis in the house when it comes time to compute your taxable gain.

- **Stock and Bond Records:** Keep records of your investment (e.g., stock, mutual funds, and bonds) purchases. Besides providing you with a date for determining the type of gain -- long term versus short term -- these records establish your basis in the investment and help to compute the gain/loss when you sell. In addition, keep records that show a return of capital on your investments.

- **Depreciation Records:** For any rental real estate or depreciable business property that you own, keep records of the property's cost, the purchase date, the method used to calculate depreciation, and a schedule of all depreciation claimed on the property in previous years. Maintain these records until you sell or dispose of the property. Once you sell the property, keep these records with the tax return on which you report the sale.

- **Personal Records:** Keep a permanent file of personal records -- such as divorce agreements, copies of estate and gift tax returns under which you received property, etc. -- since they can provide a basis for determining your tax liability when you dispose of the property.

- **Other Records:** You will benefit from keeping records in other situations. For example, if you have made nondeductible contributions to an IRA, maintaining records

of these contributions will facilitate proving your tax liability when funds are withdrawn from the IRA.

In closing, the general rule is:



When in doubt about a document, call me before you throw it out.