

## Record Retention

The VSCPA intends the following schedule to be used only as a guide. Retention periods are conservatively long, and are suggested with federal requirements in mind. Be sure to check with local and state authorities for specific record retention requirements.

Record retention is a must, whether for personal, business, or tax reasons. However, record retention is necessary only to the extent it serves a useful purpose or satisfies legal requirements. For example, generally the IRS must assess additional tax within three years after the later of filing of a return its due date. The period is six years if the taxpayer omits items of gross income that in total exceed 25 percent of gross income reported on the return. If a fraudulent return is filed or if no return is filed there is no limit to the period the tax can be assessed. In practice, however, most individuals and businesses retain records based on available space. Many accounting firms maintain permanent files for their clients. In a permanent file, such legal documents as wills, leases, employment agreements, and debt instruments are kept. In addition, other pertinent tax documents such as Subchapter S election approval or Keogh plans may be kept in this file. Non-tax records that establish the due profession care with which an accountant has performed an account or auditing on should be retained as long as an injured party could file a legal action. This time period varies from state to state and according to whether the action alleges contract or tort damages. Seven years, in most states, would be a satisfactory period for retention. Permanent files are not unique to accounting firms alone. Other businesses can also benefit from the establishment of permanent files to retain the documents listed on the following chart.

Advanced technology has somewhat eliminated the inconvenience of retaining records-the use of microfilm can condense reams of paper to the size of a single sheet. Microfilm is not without disadvantages: It is relatively expensive, non-billable to clients, and once the system is adopted generally becomes permanent.

Individuals, businesses, and accounting firms facing record retention must answer two questions:

- What must I keep?
- How long do I have to keep it?

Following are charts devised for individuals, businesses, and accounting firms. These charts may be used as a guideline for most record; however, always be sure to check local and state record retention requirements. Detail on many on many aspects of record retention, including tax records, can found in *Guide to Record Retention Requirements in the Code of Federal Regulations*, a publication available from the Superintendent of Documents or from Commerce Clearing House.

## Records Retention Schedule

This policy should adhere to the IRS's requirements and the Virginia State Law and we are publishing the following schedule for your convenience. You may wish to retain this entire page for future reference.

ITEMS	RETENTION PERIOD
Accident reports and claims (settled cases)	7 yrs
Accounts payable ledgers and schedules	7 yrs
Audit reports of accountants	Permanently
Bank reconciliations	1 yr.
Capital stock and bond records	Permanently
Cash books	Permanently
Chart of accounts	Permanently
Checks (cancelled, but see exception below)	7 yrs
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)	Permanently
Contracts and leases (expired)	7 yrs
Contracts and leases still in effect	Permanently
Correspondence general	3 yrs.
Correspondence (legal and important matters only)	Permanently
Deeds, mortgages, and bills of sale	Permanently
Duplicate deposit slips	1 yr.
Employee personnel records (after termination)	3 yrs.
Employment applications	3 yrs.
Expense analyses and Expense distribution schedules	7 yrs
Financial statements (end-of-year trial balances)	Permanently
General Ledgers (end-of-year trial balances)	Permanently
Insurance policies (expired)	3 yrs.
Insurance records, current accident reports, claims, po etc	Permanently
Inventories of products, materials, and supplies	7 yrs
Invoices to customers	7 yrs
Invoices from vendors	7 yrs
Journals	Permanently
Minute books of directors and stockholders, including bylaws and charter	Permanently
Notes receivable ledgers and schedules	7 yrs
Payroll records and summaries	7 yrs
Petty cash vouchers	3 yrs.
Physical inventory tags	7 yrs
Plant cost ledgers	Permanently
Property appraisals by outside appraisers	Permanently
Property records- including costs, depreciation reserve depreciation schedules, blueprints and plans	7 yrs
Purchase orders	1 yr.
Receiving sheets	1 yr.
Requisitions	7 yrs
Sales records	3 yrs.
Savings bond registration records of employees	7 yrs
Stock and bond certificate (cancelled)	1 yr
Stockroom withdrawal forms	7 yrs

Subsidiary ledgers	7 yrs
Tax returns and worksheets, revenue agents' reports and other documents	Permanently
Time books	7 yrs
Voucher register and schedules	7 yrs
Voucher for payments to vendors, employees, etc. (includes all allowances and reimbursement of employees and officers)	7 yrs

## IRS Practice and Procedure

### Sales and receivables

Sales journals	7 yrs.
Shipping tickets	3 yrs.
Accounts receivable ledgers and trial balances	7 yrs.
Invoices	7 yrs.
Uncollectable accounts and write offs	7 yrs.
Expired contracts and notes receivable	7 yrs.

### Purchases and payables

Purchase journals	7 yrs.
Bills of lading	3 yrs.
Accounts payable ledgers and trial balances	7 yrs.
Purchase orders	3 yrs.
Paid bills and vouchers	7 yrs.
Expired purchase contracts	7 yrs.

### Payroll

Payroll journals	7 yrs.
Time cards	7 yrs.
Payroll reports (federal & state)	7 yrs.
Assignments & garnishments	3 yrs.
Forms W-4	7 yrs.

### **Accounting Firms**

<b>Tax files</b>	<b>In office</b>	<b>In Storage</b>
Present clients	3 yrs.	Permanent
Former clients	3 yrs	7 yrs.

<b>Workpaper files</b>	<b>In office</b>	<b>In Storage</b>
Auditor's reports, compiled or reviewed reports	Present clients	Permanent
Former clients	3 yrs	7 yrs
Correspondence files	3 yrs	7 yrs

## IRS Practice and Procedure

Individual Records	Retention Period
Tax return copies	6 yrs. after filing
Medical bills	6 yrs. after payment
Forms 1099 received	6 yrs. after receipt
Keogh statements	6 yrs. after Keogh termination
IRA records (deductible & nondeductible)	6 yrs. after IRA termination
Loan records	6 yrs. after loan payoff
Insurance policies	6 yrs. after expiration
Major purchase receipts	6 yrs. after purchase
Year-end brokerage statements	6 yrs. after securities deposit
Certificates of deposit statements	6 yrs. after maturity
Schedule K-1's from partnerships or S corporations	6 yrs. after disposition of interest
House records (cancelled checks for purchase, major improvements and maintenance)	Permanent
Birth and death certificates	Permanent
Medical records	Permanent
Wills	Permanent
Forms W-2 received	Permanent
Trust agreements	Permanent
Detailed list of financial assets held	Permanent
Alimony, custody of Prenuptial agreements	Permanent
Military papers	Permanent
Photos or videotape of valuables	Permanent

**Note:** Documents establishing basis of trade, business or investment assets, or taxpayer's principal residence should be retained for six years beyond the date of the filing of the tax return for the year in which the asset was disposed.

## **Business Records**

### **General and financial**

Capital stock records	Permanent
Corporate records and minutes	Permanent
Property titles and mortgages	Permanent
Federal, state and local tax returns	Permanent
Fixed asset records and appraisals	Permanent
Accountant's audit reports	Permanent
Interim and year-end financial statements and trial balances	Permanent
Monthly trial balances	Permanent

### **Cash**

Cash receipts and disbursements	7 yrs.
Bank statements, cancelled checks, and deposit	7 yrs.
Bank reconciliations	7 yrs.
Petty cash vouchers	7 yrs.

### **Inventories**

Perpetual inventory records	7 yrs.
Physical inventory records	7 yrs.