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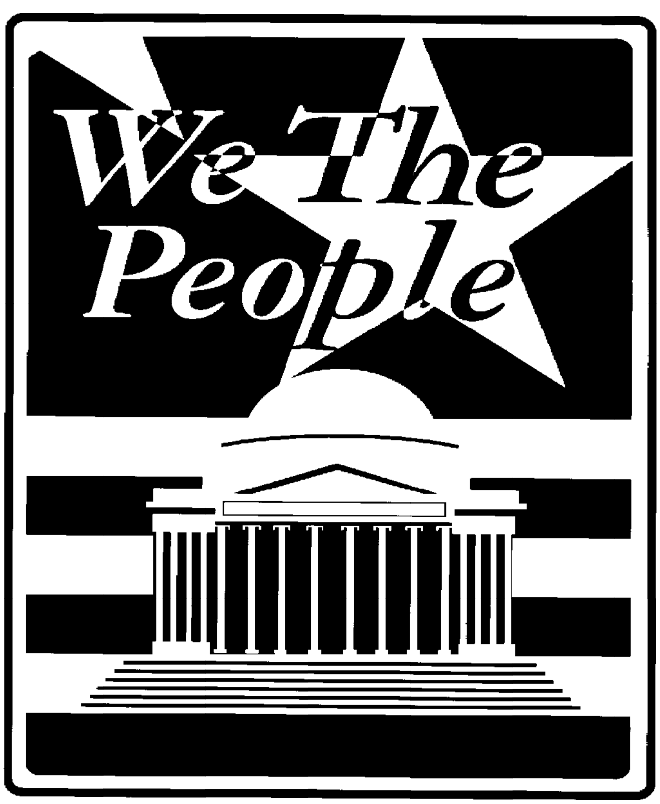
Recordkeeping for Individuals

For use in preparing

1994 Returns



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Introduction

This publication discusses the records you should keep to help you prepare an accurate tax return and pay the correct tax. You must keep records the Internal Revenue Service (IRS) can use to verify the income, deductions, and other items reported on your return.

Keeping records can reduce tax. If you keep records of your expenses during the year, you may be able to reduce your income tax by itemizing your deductions on Schedule A (Form 1040). Your deductible expenses may include:

1) A part of your medical and dental bills,
2) Mortgage interest payments,
3) Contributions,
4) Taxes, and
5) Certain other expenses.

Good records will also help you if the IRS selects your tax return for examination. Usually, an examination will occur one to three years after you file a return. If you have kept good records, you should be able to clear up questionable items and arrive at the correct tax with a minimum of effort. If you have not kept good records, you may have to spend time getting statements and receipts from various sources. You may also have to pay more tax because you cannot prove expenses deducted or the basis of property sold.

Use this publication to decide what kinds of records to keep and how long to keep them. For a discussion of business records, get Publication 583, *Taxpayers Starting a Business.*

Free publications and forms. If you need information on a subject not covered in this publication, you can check our other free publications. To order publications and forms, call our toll-free telephone number 1–800–TAX–FORM (1–800–829–3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address.

Telephone service for hearing-impaired persons. Hearing-impaired taxpayers who have access to TDD equipment may call

1–800–829–4059 with their tax questions. The hours of operation are as follows:

8:00 a.m. to 6:30 p.m. EST (Jan 1 – April 4)

9:00 a.m. to 7:30 p.m. EDT (April 5 – April 15)

9:00 a.m. to 5:30 p.m. EDT (April 16 – Oct. 31)

8:00 a.m. to 4:30 p.m. EST (Nov. 1 – Dec. 31)

Records You Should Keep

You must keep records accurately, but the IRS does not require a particular form for keeping them. However, you should keep sales slips, invoices, receipts, and canceled checks or financial account statements (see *Kinds of Receipts To Keep,* later), to verify the deductions and credits shown on your tax return. Keep Form W–2, *Wage and Tax Statement;* Forms 1099 showing interest, dividends, distributions, etc.; stock brokerage statements; and any other documents that prove the amounts shown on your return as income. Although the IRS does not require a particular form of recordkeeping, keep your records available in a manner that will allow the IRS to determine your correct tax.

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 they are necessary 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) by using Form 4506, *Request for Copy or Transcript of Tax Form* . Send the completed form to the Internal Revenue Service Center where you filed the return. There is a $14 charge for a copy of a return, which must be paid with Form 4506, but there is no charge for a copy of only Form W–2. Returns filed 6 or more years ago may not be available for making copies. However, tax account information is generally still available for those years.

You can also use Form 4506 to request a tax return transcript showing most lines from your original return, including accompanying forms and schedules.

Tax account information. If you need a statement of your tax account showing any later changes that you or the IRS made to the original return, you will need to request tax account information. To get tax account information, do not use Form 4506. Instead, write or visit an IRS office or call the IRS toll-free number listed in your telephone directory. When you provide your name, social security number or employer identification number (if applicable), and the tax period, you will receive the following information **free** of charge:

Type of return filed,

Filing status,

Federal income tax withheld,

Tax shown on return,

Adjusted gross income,

Mortgage interest/Real estate tax deduction,

Taxable income,

Self-employment tax,

Number of exemptions,

Amount of refund, and

Amount of earned income credit.

Employee expenses. If you have travel, entertainment, or gift expenses related to your job, get Publication 463, *Travel, Entertainment, and Gift Expenses,* for a discussion of the records to keep. For a discussion of records of car expenses related to your work, get Publication 917, *Business Use of a Car.*

Reporting earnings for self-employment social security tax. The social security benefits paid to you for disability or retirement, or to your survivors, depend on the accurate reporting of your earnings from self-employment. Keep accurate records of your business income and expenses, as discussed in Publication 583.

Business use of your home. You may be able to deduct certain expenses connected with the business use of your home, including business use of home computers. You must maintain records that provide the information needed to figure your deduction. Get Publication 587, *Business Use of Your Home.*

Capital gains and losses. If you sell a capital asset, you must report any gain. If you have a loss, you may be able to deduct it. Your records must show:

When and how you acquired the asset,

How you used the asset,

When and how you disposed of the asset,

Your cost or other basis,

The gross selling price, and

The expenses of the sale.

For more information on capital gains and losses, get Publication 544, *Sales and Other Dispositions of Assets,* and Publication 550, *Investment Income and Expenses.*

Basis of property. You should keep records that show the basis of property you own.

Your home. If you own a home, you must keep records of the purchase price, any purchase expenses, the cost of any improvements, and any other basis adjustments, such as depreciation and deductible casualty losses.

If you sold your old home and postponed tax on the gain from the sale, you should keep information about the old home, too. The basis of your present home is reduced by the gain on which tax was postponed. Form 2119, *Sale of Your Home,* which you file to report the sale, shows the postponed gain. You should keep this form indefinitely.

Your real estate broker must report the sale to the IRS by filing Form 1099–S, *Proceeds From Real Estate Transactions.* Get Publication 523, *Selling Your Home.*

Reinvested dividends. If dividends on stock you own are reinvested (the company buys additional whole or fractional shares of stock for you with the dividends), you should keep records of the reinvested dividends.

Basis of property received as a gift. Your records must show the donor's adjusted basis just before you received the property, its fair market value on the date of the gift, and any gift tax the donor paid on it.

For more information on basis, get Publication 551, *Basis of Assets.*

Performing services for a charitable organization. If you itemize deductions, you should keep records of your out-of-pocket expenses you pay in giving services to a charitable organization. For example, if you use your car when doing volunteer work, you can deduct the unreimbursed gas and oil expenses directly related to the volunteer work. You cannot deduct depreciation, insurance, or general repair and maintenance expenses.

If you do not want to deduct your actual expenses, you can use a standard rate of 12 cents a mile to figure your charitable deduction. In either case, you can deduct parking fees and tolls. For more information, get Publication 526, *Charitable Contributions.*

Pay statements. If you have deductible expenses withheld from your paycheck, keep your pay statements for a record of the expenses.

Divorce decree. If you take a deduction for alimony payments, keep your canceled checks or financial account statements and a copy of the written separation agreement or the divorce, separate maintenance, or support decree. Get Publication 504, *Divorced or Separated Individuals*.

Kinds of Receipts To Keep

The following are kinds of receipts you should keep for specific expenses deductible on Schedule A (Form 1040), *Itemized Deductions*.

Medical and dental expenses. You can deduct unreimbursed medical and dental expenses that exceed 7.5% of your adjusted gross income. Keep your bills for medical expenses and the canceled checks, financial account statements, or receipts to show the date you paid them. If you pay by cash, most providers of medical and dental services will give you a receipt.

You can include transportation expenses primarily for and essential to medical care as medical expenses. Rather than keeping records of actual expenses for gas and oil, you can keep a log of your mileage for medical care, plus tolls, taxi, or bus fares. You can include 9 cents a mile for medical care as a medical expense.

If your employer withholds amounts from your wages for medical insurance, keep your pay statements to show the premiums you paid. For more information on medical expenses, get Publication 502, *Medical and Dental Expenses.*

Taxes. Your Form W–2 shows the state income tax withheld from your wages. If you made estimated state income tax payments, keep your canceled checks or financial account statements and a copy of the state estimated tax return. Your state tax return for last year shows any additional state tax paid or any refund received in the current year. The state may also send you a copy of Form 1099–G, *Certain Government Payments*, that shows the amount of your refund. Keep canceled checks and statements, mortgage statements, or other documents for your real estate and personal property taxes paid.

Interest. Keep statements, notes, and canceled checks or financial account statements to prove your interest payments on a mortgage. If you paid mortgage interest of $600 or more to a financial institution, you should receive Form 1098, *Mortgage Interest Statement.* Get Publication 936, *Home Mortgage Interest Deduction*, for details about interest you can deduct.

Contributions. The kinds of records you must keep for charitable contributions depend on the amount of the contribution, whether you contribute cash or property, and whether you benefit from the contribution.

Cash. If you contribute cash, you must keep one of the following for each contribution:

1) A canceled check or a financial account statement, described later under *Proof of Payment,*
2) A receipt from the charity showing its name, the amount, and date of the contribution, or
3) In the absence of a check, financial account statement, or receipt, other reliable written records that are reasonable under the circumstances and that show the name of the charity, the amount, and the date of the contribution.

Contributions of $250 or more. For contributions of $250 or more, you can claim a deduction only if you have an acknowledgment of your contribution from the charity or adequate payroll deduction records.

In figuring whether your contribution is $250 or more, do not combine separate contributions. However, two checks written on the same date to the same charity may be considered one contribution. If contributions are made by payroll deduction, the deduction from each paycheck is treated as a separate contribution.

The acknowledgment must meet these tests:

1) It must be written,
2) It must include:
   a) The amount of cash you contributed,
   b) Whether the charity gave you any goods or services as a result of your contribution, and
   c) A description and good faith estimate of the value of any goods or services described in (b). If the only benefit you received was an intangible religious benefit (such as admission to a religious ceremony), that generally is not sold in a commercial transaction outside the donative context, the acknowledgment must say so and does not need to describe or estimate the value of the benefit.
3) You must get it on or before:
   a) The date you file your return for the year you make the contribution, or
   b) The due date, including extensions, for filing the return,

whichever date is earlier.

Payroll deduction records. If you make a contribution by payroll deduction, you do not need an acknowledgement from the qualified organization. But if your employer deducted $250 or more from a single paycheck, you must keep:

1) A pay stub, Form W–2, or other document furnished by your employer that proves the amount withheld, and
2) A pledge card or other document from the qualified organization that states the organization does not provide goods or services in return for any contribution made to it by payroll deduction.

Property. If you contribute any property, the kinds of records you must keep depend on whether your deduction for the contribution is:

1) less than $250,
2) at least $250 but not more than $500,
3) over $500 but not more than $5,000, or
4) over $5,000.

If you claim a deduction of less than $250, you must keep for each contribution a receipt from the charity showing all of the following:

1) The name of the charity,
2) The date of donation and location of the property, and
3) A reasonably detailed description of the property.

You must also keep reliable written records for each item of donated property. A receipt is not required if it is not practical to get one (for example, when depositing property at an unattended drop site). For more information, get Publication 526.

If you claim a deduction of at least $250 but not more than $500, you must get and keep, in addition to a receipt and your written records, an acknowledgment of your contribution from the charity. Get Publication 526 for more information.

If you claim a deduction of more than $500, you must keep written records, a receipt, an acknowledgment, and additional records, and you must file Form 8283, *Noncash Charitable Contributions.* For more information, see Publication 526.

Special substantiation requirements apply when the value of an item, or a number of similar items together, is more than $5,000. For details, get Publication 561, *Determining the Value of Donated Property*.

Contributions from which you benefit. If you make a contribution to a charity that is more than $75 and is partly for goods or services, the charity must give you a written statement. The statement must tell you that you can deduct only the amount of your contribution that is more than the value of the goods or services you received. It must also give you a good faith estimate of the value of those goods or services.

For more information, see Publication 526.

Miscellaneous deductions. The limit on the amount you can deduct for most miscellaneous itemized deductions is the total of these deductions that is more than 2% of your adjusted gross income. You should keep receipts, canceled checks, financial account statements, or other documentary evidence for these deductions, as well as for other miscellaneous deductions not subject to the 2% limit. For more information, get Publication 529, *Miscellaneous Deductions.*

Union dues. If your employer withholds union dues from your wages, keep your pay statements to show the amount paid. If you pay by cash or check, keep the receipts and canceled checks or financial account statements.

Proof of Payment

One of the elements that verifies items you report on your return (such as deductions or credits you claim or the basis of property you own) is proof of payment. Generally, you prove payment with a canceled check or cash receipt.

However, you will not be able to produce a canceled check if your bank does not return canceled checks under its system, or if you make payments by electronic funds transfer or by credit card. In these cases, you can prove payment with an account statement, as explained next.

Account statement. If you do not have a canceled check to prove payment of an amount reported on your return, you can prove the payment with an account statement prepared by your bank (or other financial institution). The statement must show:

1) For a check, the check number,
2) The amount of the check, electronic funds transfer, or credit card charge,
3) For a check or electronic funds transfer, the date the check or transfer was posted to your account by the bank,

4) For a credit card charge, the date of the charge by you (the transaction date), and
5) The name of the payee.

Legible statement. The IRS will accept an account statement for consideration as proof of payment only if the required information it shows is highly legible. However, the information does not have to be typed or printed. For example, the statement information can be a reproduction of your canceled checks or charge slips.

Other proof of payment. If you do not have either a canceled check or account statement showing the required information to prove payment of an item on your return, you can provide other proof. For example, you can prove payment with a combination of an invoice marked ''Paid,'' a check register or copy of the check, ***and*** an account statement that shows the check number, date, and amount.

Proof of correct tax treatment. Proof of payment is not proof that the item (deduction, credit, property basis, etc.) claimed on your return is allowable. You should also keep any other documents that will help prove that the item claimed is allowable (see *Records You Should Keep,* earlier).

When credit card purchases are paid. Any purchase you make with a credit card is paid on the date shown on the charge slip for that purchase. Your payment of any balance due on the credit card statement that includes the charge slip is not payment of the related purchase. It is payment of money borrowed from the credit card bank.

How To Keep Records

It can be helpful to write down your ordinary expenses that may be deductible. How often you record these expenses is up to you. See the sample record form on the next page.

Income statements. You should keep your income statements. These include Form W–2 for your wages and Forms 1099 for interest and dividends.

Your checkbook. Your checkbook can be a basic source for keeping a record of your deductible expenses. If your checkbook has enough space, record sufficient information when you write a check. When you prepare your return, you can determine if the amount is a deductible expense. Canceled checks or financial account statements alone are not always adequate evidence that you can deduct the amount. You should keep receipts, sales slips, and any other documents that establish the amount you can deduct.

You can keep receipts in any manner that best suits you as long as you can adequately document each deduction you take. One method is to designate an envelope for each kind of expense. For example, you can keep all medical and dental receipts in one envelope and all tax statements in another.

If you make payments with cash, get a complete, dated, and signed receipt for any payments that may be deductible.

Accounting Periods and Methods

All income tax returns are prepared using an accounting period and method. You establish your accounting period and method when you file your first federal income tax return.

Accounting period. Every taxpayer must figure taxable income and file a federal income tax return on the basis of an annual accounting period called a ***tax year.*** A tax year is usually 12 months. It can be a calendar year (January 1 through December 31) or a fiscal year (12 consecutive months ending on the last day of any month but December).

You establish your tax year when you file your first federal income tax return. Most individual taxpayers who do not operate a business use the calendar year as their tax year. Form W–2 and Forms 1099 are prepared on the basis of the calendar year.

If you file your first return as a wage earner using the calendar year and later begin a business as a sole proprietor, you must keep your business books on a calendar-year basis. You cannot change your accounting period without permission from the IRS.

Newly married couple. A newly married husband or wife can adopt the accounting period of the other spouse without permission from the IRS, if he or she meets certain conditions.

Accounting method. An accounting method is the set of rules you use to report income and deduct expenses. The two most common accounting methods are the cash method and an accrual method.

The cash method. Most taxpayers who are employees use this method. Form W–2 is prepared on the cash basis.

With this method, you report all items of income in the year they are received or credited to your account, or made available to you on demand. You deduct most expenses in the year you pay them. Most expenses paid in advance can be deducted only in the year to which they apply.

An accrual method. With this method, you account for income when you earn it, whether or not you receive it. You deduct expenses when you incur them, rather than when you pay them.

You must use the same method from year to year. If you want to change your method of accounting, you must first get the consent of the IRS.

More information. Get Publication 538, *Accounting Periods and Methods,* for more information on accounting periods and methods and how to change your tax year or accounting method.

How Long To Keep Records

Generally, you must keep your records as long as they are important for any federal tax law. You should keep records that support an item of income or a deduction on your return at least until the period of limitations expires for that return. (A period of limitations is the limited period of time after which no legal action can be brought.) Usually this is 3 years from the date you file the return, or 2 years from the date you pay the tax, whichever is later. The IRS treats returns filed before the due date as filed on the due date.

If you do not report income that you should report, and it is more than 25% of the income shown on your return, the period of limitations does not expire until 6 years after you file the return. If a return is false or fraudulent, or if no return is filed, an action can generally be brought at any time.

There are times you should keep your records longer than the period of limitations. For example, you should keep records relating to the basis of property you own as long as they are needed to figure the basis of the original or replacement property.

To verify the nontaxable part of distributions from your IRA, keep a copy of Form 8606, *Nondeductible IRAs (Contributions, Distributions, and Basis).* Also keep copies of the following forms and records until all distributions are made from your IRA(s):

- Forms 1040 (or Forms 1040A or Forms 1040NR) filed for each year you make a nondeductible contribution,
- Forms 5498 or similar statements received each year showing contributions you made,
- Forms 5498 or similar statements you received showing the value of your IRA(s) for each year you received a distribution, and
- Forms 1099–R received for each year you received a distribution.

Also, new laws may provide tax benefits to taxpayers who can prove from their records from previous years that they are entitled to the benefits.

Penalties

To ensure that all taxpayers pay their fair share of taxes, the law provides penalties for failure to file returns or pay taxes as required. Other penalties include those for:

- Not supplying a taxpayer identification number,
- Filing a frivolous income tax return, and
- Not including a tax shelter identification number on a return.

Table 1. **Expense Record**

Note: You should also keep a record of your expenses that can be used to figure tax c redits, such as child and dependent care expenses.

Date 19 ___	Payee	Medical and Dental	Taxes	Interest		Contributions	Miscellaneous	
				*	Amount		Explanation	Amount

Medical and Dental	Fees for doctors, dentists, nurses, hospital care, prescription drugs and insul in, health insurance premiums, hearing aids, dentures, eyeglasses, transportation for medical purpos es, etc.
Taxes	Real estate taxes, personal property taxes, state and local income taxes, etc.
Interest	Home mortgage interest and investment interest.
Contributions	Cash or property contributions to community chest, church or synagogue, schools , and other qualifying organizations.
Miscellaneous	Union dues, subscriptions to professional journals, uniforms, tax assistance fe es, etc.

* Home mortgage interest and investment interest must be reported on separate lines within the *Interest You Paid* section of Schedule A (Form 1040). Therefore, you might want to identify each amount entered in this column. For example, you could place an ''(H)'' alongside an amount that is home mortgage interest and an ''(I)'' by an amount of investment interest.