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## RECORD RETENTION:

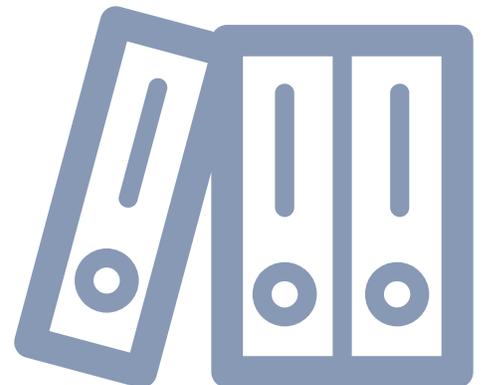
# What to Keep and for How Long?

Navigating IRS and other compliance regulations can be daunting, and even more uncertainty arises in an increasingly digital age:

Can electronic files completely replace hard copies?

How long must paper copies be maintained?

We've prepared a general overview, which answers most common questions and links back to IRS resources when applicable.



## How long do you need to keep 1099 files?

According to the IRS, you generally need to keep most 1099 records for 3 years from the due date of the return, 4 years for 1099-C and 4 years if backup withholding was imposed.

*(IRS 2015 Instructions for Forms 1097, 1098, 1099, 3921, 3922, 5498, and W-2G, page 7. E. Filing Returns with the IRS, subheading Keeping Copies)*

## How long do you need to keep escheatment files?

A state audit can actually require all historic records without time limitation. However, most states will accept the last ten years or less vs. reviewing a company's entire history.

If you're in compliance, you should have been submitting annual reports to the state. However, if the state can't find the evidence they're looking for in their own records, the responsibility to prove compliance can fall on you. That's why the Unclaimed Property Holders Liaison Association (UPHLC) recommends keeping unclaimed property reporting records indefinitely.

## Regarding digital reproduction—the IRS accepts the “best evidence” as support for expenditures.

### Are companies destroying original documents and relying on images to provide this?

Yes, some companies are doing this, and it's generally OK.

Per [IRS publication 583](#), “The original hard copy books and records may be destroyed provided that the electronic storage system has been tested to establish that the hard copy books and records are being reproduced in compliance with IRS requirements for an electronic storage system and procedures are established to ensure continued compliance with all applicable rules and regulations. You still have the responsibility of retaining any other books and records that are required to be retained.”

## Where are the current IRS requirements for record retention?

You will find record retention guidelines in [IRS publication 583](#).

## How long do you need to keep packing slips?

If you are using it as a receiving document, then you should save it for 7 years, similar to a bill of lading. If you're only using it as a reference to compare what's documented on a separate report, you might not need to keep it. If you're unsure, ask your tax advisor.

## My company uses a corporate credit card.

### Do we still need to keep receipts or can we just use our credit card statements to support deductible business expenses?

If the card is used for travel and entertainment, the IRS requires a receipt for all hotel charges, as well as any expenditure over \$75. Generally, a credit card statement isn't enough if your purchase card expenses include T&E as your standard statement won't include itemized purchases.

## What do you need to support your business expense?

According to the IRS, “Adequate evidence. Documentary evidence ordinarily will be considered adequate if it shows the amount, date, place, and essential character of the expense.” (*IRS Resource: How to Prove Expenses*)

### Acceptable supporting documents:

#### Hotel receipt, containing:

- Hotel name and location
- Dates of stay
- Charges broken down individually (*lodging, meals, WiFi, phone costs, etc.*)

**Restaurant receipt, containing:**

- Date
- Total cost
- Additional charges (*non-food/beverage*)
- Number of people served (*can be submitted with receipt as most receipts do not contain this information*)

**Does a cancelled check count?**

It usually does, but only if accompanied with a bill from the payee; a cancelled check alone won't work.

**We're moving from paper checks to EFT for our payments. We have large amounts of paperwork containing banking details in storage. The information has already been scanned into our system.**

**What is best practice for storing/destroying this information?**

Electronic documentation is generally fine as long as it's protected from authorized access and usage. How long you store the originals documents after going digital is up to your organization's policies.

**How long do you need to keep backup documentation for A/P voucher packages and employee reimbursement and travel expenses?**

The IRS requires businesses to keep financial documents such as deposit slips, receipt books and invoices. How long you need to store it depends on the kind of expense and your tax filing status. (*IRS publication 583*) Here's the breakdown of how long you need to store documents:

- File a claim for a loss from worthless securities or a bad debt deduction (*7 years*)
- File a claim for credit or tax refund after you've already filed, (*2 or 3 years after tax was paid; whichever is later*)

- Filed a fraudulent return or did not file at all (*indefinitely*)
- Recorded too little income on your return and the unreported amount is more than 25 percent of your gross income (*6 years*)
- Filed a return and owe additional taxes (*3 years*)

The general standard is to keep invoices for seven years, which fulfills all scenarios listed above.

**Travel and expense reimbursement - (Publication 463A)**

As we've mentioned earlier, adequate proof can be receipts or other documentary evidence listing the date, location and the business reason for the expense. Records of these expenses are to be kept, either written or electronic, for three years. Many companies keep them seven years for consistency with the retention time noted above for invoices.

Documentary evidence (*receipts*) is needed to support expenses for all cases except the following exceptions:

- The employee was reimbursed using a per diem allowance. While the employee must prove the expenses were business-related, receipts are not needed for tax purposes
- If the expense is less than \$75, no receipts are required unless the expense is for lodging.
- Receipts are not needed for transportation costs, for which receipts are not readily available

Record retention is discussed in [Publication 583 on page 11](#), under "[Recordkeeping.](#)"

Travel and Expense records are discussed in [Publication 463 on page 25](#), under "[Recordkeeping.](#)"

**Should vendor statements be filed or thrown away?**

This simply depends on your company's record retention policy. Some companies don't keep these statements after they've reconciled them against what they have in their AP system, so they don't mix up a payment invoice with a statement. Other companies keep the reconciliation, date stamp it and file it.

## Can we scan and attach original W-8 forms to financial records?

Yes, that meets IRS regulations if the documents are reproduced in a “legible and “readable” format and that retention requirements for paper documents are also applied to electronic records.

## If we want to store deposited checks, what do we need to do to safely store them and reduce the possibility of fraudulent activity?

You are liable for any fraudulent activity that arises from unauthorized access to these checks. To securely store this sensitive data, you need to eliminate the MICR information from the image, mark the check as “void” and deface the signature area. Investing in cyber liability insurance is also an option; however, it will not change the necessary measures you need to take as previously stated.

## About ACOM Solutions

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