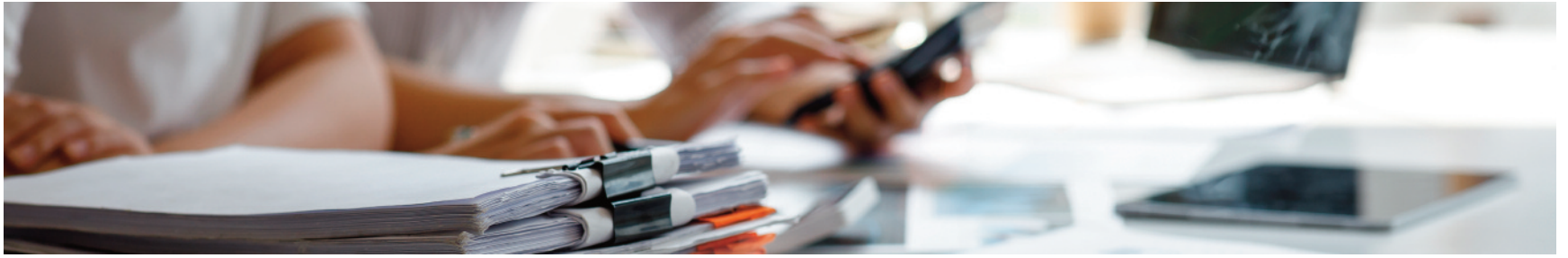


TAX PLANNING & PREPARATION GUIDE



RECORDKEEPING FOR TAX PURPOSES

Provided by H&R Block

Which records should you keep? You should keep information that you and the IRS need to determine your correct tax. Everyone should keep the following records.

Copies of tax returns. Keep copies of your tax returns as part of your tax records.

- Your tax returns can help you prepare future returns and amended returns.
- After you die, copies of your tax returns and other records can be helpful to your survivors or the executor or administrator of your estate.

Proof of income and expenses. Listed below are examples of income and expense documents you should keep. The list is not all inclusive.

Income	<ul style="list-style-type: none"> • Forms W-2, 1099, and Schedules K-1 • Bank and brokerage statements • Business and hobby income records • Records relating to sale of business property
Expenses	<ul style="list-style-type: none"> • Sales slips, invoices, receipts • Cancelled checks or other proof of payment
Deductions	<ul style="list-style-type: none"> • Medical expenses • Real estate tax records • Mortgage interest
Donations	<ul style="list-style-type: none"> • Details of cash and noncash contributions • Written communications from qualified charities
Your Home	<ul style="list-style-type: none"> • Closing statements, including any refinance documents • Purchase and sales invoices • Receipts for improvements • Insurance records
Investments	<ul style="list-style-type: none"> • Brokerage statements • Form(s) 1099 and 2439 • Mutual fund statements • Other basis documentation
IRAs	<ul style="list-style-type: none"> • Forms 1099-R, 5498, and 8606 for each year.

Records for Special Situations

Some items require specific records, in addition to the basic records of income and expenses.

- **Alimony.** If you pay or receive alimony, keep a copy of your written separation agreement or the divorce, separate maintenance, or support decree.
- **Business use of your home.** Keep records that show which part of your home is used for business and the expenses related to that use. Childcare providers should also keep track of hours open for business, as well as hours spent in preparation and clean up.
- **Gambling.** Keep an accurate diary of winnings and losses. Required information includes:
 - Date and type of gambling activity.
 - Gambling establishment name and address, and names of persons present with you.
 - Amount you won or lost.

• **Tax credits.** Each tax credit includes special record-keeping requirements. Examples include:

- Provider's name, address, and taxpayer ID number for the Child and Dependent Care Credit.
- Physician's certification for the Credit for the Elderly or the Disabled.
- School records for the education credits.

• **Vehicle records.** If you use your own car for business, medical transportation, or qualifying volunteer work, keep a mileage log that includes the date, destination, and purpose of each trip. You also need to know how many miles you drove for other purposes, such as commuting and personal use. Your vehicle records should include purchase or lease papers and loan records. You may receive a larger deduction if you keep records of gas purchases, maintenance costs, etc., in addition to mileage.

What is Proof of Payment?

The records you keep provide the documentation to support the deductions and expenses claimed on your tax return. You must always keep documentation of the reason for the payment. Other documents, such as statements and receipts, will help establish that the item is allowable on your tax return.

If You Pay With	Then the Statement Must Show
Cash	Amount, payee name, transaction date
Check	Check number, amount, payee's name, date the check was posted to your account
Debit or Credit Card	Amount charged, payee's name, transaction date
Electronic Funds Transfer	Amount transferred, payee's name, date, the transfer was posted to your account
Payroll Deduction	Amount, payee code, transaction date

• **Account statements.** Account statements from your financial institution are acceptable as proof if they provide the information shown above.

• **Pay statements.** You may have deductible expenses withheld from your wages, such as medical insurance premiums and charitable contributions. Keep year-end or final pay statements to prove payment of these items.

• **Mortgage interest.** Form 1098, Mortgage Interest Statement, documents mortgage interest you paid. Be sure to verify that the amount is correct.

How Long Should You Keep Tax Records?

The IRS says you must keep your records for as long as they may be needed for the administration of any provision of the Internal Revenue Code, which means you must keep records of items shown on your return until the statute of limitations for that return expires. The statute of limitations is the time during which you can amend your return, claim a credit, or be assessed additional tax by the IRS. The chart next column lists some general guidelines.

Asset Records

Keep records of acquisition date and cost basis for each business or investment asset until the period of limitations expires for the year in which you dispose of the asset. For example, suppose you sold a piece of business equipment in 2020 and you meet condition (1) below. You must then keep records of that asset until at least April 15, 2024 (three years after the due date for your 2020 tax return).

Statute of Limitations	
If you ...	Then the statute of limitations is:
1) Owe additional tax, and conditions 2, 3, and 4, below, do not apply to you	3 years after the return is filed.*
2) Omit income that is more than 25% of gross income on your return	6 years after the return is filed.*
3) File a fraudulent return	Unlimited.
4) Do not file a return	Unlimited.
5) File a claim for credit or refund after filing* an original return	Later of 3 years after the return is filed, or 2 years after tax was paid.
6) File a claim for loss from worthless securities	7 years after the return is filed.*

* A return filed early is treated as being filed on the due date.

Electronic Records

Paper records take up a lot of space, and they can fade or be damaged. Many people prefer to keep electronic records instead of paper records.

All requirements that apply to hard copy records apply to electronic records, including record retention periods. If you scan or otherwise transfer your tax records to an electronic format, you must be able to store, preserve, retrieve, and re-produce the records in a legible, readable format. Remember to back up electronic records and store in a secure location.

Penalties

If you cannot substantiate certain items on your return with proof, the IRS may disallow those items, resulting in additional tax due. As a result, you may be subject to accuracy-related penalties due to negligence or substantial underpayment of tax.

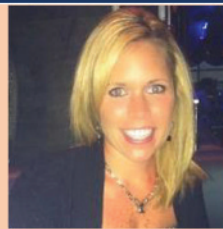


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Save Time & Money
 Utilizing a Bookkeeper vs. a Full Time Office Employee



Behind Exciting Long-Term Business Growth is a Boring Bookkeeper...

The end of the year is a busy time for many reasons. Holidays, travel plans and family visits consume most of our days starting in November through January 1. But as a small business owner, there is even more you have to handle at the end of the year.

Right now, is the time of year when your business really needs your attention, especially in regard to accounting. Doing so not only helps you close out the current year on a high note, but it also sets you up for starting off the next year on the right foot.

Is your business on par with the following accounting tasks?

• **Monthly bank, credit card and loan reconciliations** — For the year-end, it is important to make sure what you show on your financial statements matches up with your bank and credit card accounts and your year-end statements.

• **Reconcile your accounts receivable and accounts payable** — There is a tendency to forget to collect on your invoices if you do not use invoicing software. Without a good collection system like QuickBooks, you may be missing out on the money you are owed.

• **Gather and Organize Your Receipts** — It is important to gather and organize your business-related receipts. A shoebox full of receipts is the last thing your CPA wants to see. There are many

apps available to download, which will simplify this.

• **Check Payroll** — A few common areas to watch out if you're worried about end of year accounting are withholding taxes for fringe benefits, deferred compensation, and end of year bonuses.

• **Collect W-9s** — Did you use vendors this year? If so, you will have to collect W-9 forms for some of them. The W-9 form can be used as a paper trail for the IRS to track your expenses. For every vendor that you have spent \$600 or more for services, you are required by law to issue and complete a 1099 form. The 1099 must be filled out and sent to the IRS by January 31st.

• **Take Physical Inventory** — For some of you, there is no need to take physical inventory. For others, getting an accurate account of your inventory is important. You will want to match it with your end of year balance sheet. It will also be helpful for your bookkeeper, especially to know how much you have spent on inventory throughout the year and its current value.

If the above-mentioned tasks are in a foreign language to you, or if you know that there is not enough time in the day to tackle this checklist, call Breslow's Bookkeeping Business at 215.272.5217 today.

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