

How Long Should You Store Tax Records?

Business Tax Documents

Purchases, sales, payroll, and other transactions you have in your business will generate supporting documents. Supporting documents include sales slips, paid bills, invoices, receipts, deposit slips, and canceled checks. These documents contain the information you need to record in your books. It is important to keep these documents because they support the entries in your books and on your tax return. You should keep them in an orderly fashion and in a safe place. For instance, organize them by year and type of income or expense.

The following are some of the types of records you should keep:

Gross receipts

Gross receipts are the income you receive from your business. You should keep supporting documents that show the amounts and sources of your gross receipts. Documents for gross receipts include the following:

- Cash register tapes
- Deposit information (cash and credit sales) Receipt books
- Invoices
- Forms 1099-MISC

Purchases

Purchases are the items you buy and resell to customers. If you are a manufacturer or producer, this includes the cost of all raw materials or parts purchased for manufacture into finished products. Your supporting documents should identify the payee, the amount paid, proof of payment, the date incurred and include a description of the item to show that the amount was for purchases. Documents for purchases include the following:

- Canceled checks or other documents reflecting proof of payment/electronic funds transferred
Cash register tape receipts
- Credit card receipts and statements
- Invoices

Note: A combination of supporting documents may be needed to substantiate all elements of the purchase.

Expenses

Expenses are the costs you incur (other than purchases) to carry on your business. Your supporting documents should identify the payee, the amount paid, proof of payment, the date incurred and include a description of the item purchased or service received that shows the amount was for a business expense. Documents for expenses include the following:

- Canceled checks or other documents reflecting proof of payment/electronic funds transferred
Cash register tape receipts

- Account statements
- Credit card receipts and statements
- Invoices

Note: A combination of supporting documents may be needed to substantiate all elements of the expense.

Travel, Transportation, Entertainment, and Gift Expenses

If you deduct travel, entertainment, gift or transportation expenses, you must be able to prove (substantiate) certain elements of expenses. For additional information, refer to Publication 463, Travel, Entertainment, Gift, and Car Expenses.

Assets

Assets are the property, such as machinery and furniture, that you own and use in your business. You must keep records to verify certain information about your business assets. You need records to compute the annual depreciation and the gain or loss when you sell the assets. Documents for assets should show the following information:

- When and how you acquired the assets
- Purchase price
- Cost of any improvements
- Section 179 deduction taken
- Deductions taken for depreciation
- Deductions taken for casualty losses, such as losses resulting from fires or storms How you used the asset
- When and how you disposed of the asset
- Selling price
- Expenses of sale
- The following documents may show this information.
- Purchase and sales invoices
- Real estate closing statements
- Canceled checks or other documents that identify payee, amount, and proof of payment/electronic funds transferred

Employment taxes

There are specific employment tax records you must keep. Keep all records of employment for at least four years. For additional information, refer to Recordkeeping for Employers and Publication 15, Circular E Employers Tax Guide.

Personal Tax Documents

The length of time you should keep a document depends on the action, expense, or event which the document records. Generally, you must keep your records that support an item of income, deduction or credit shown on your tax return until the period of limitations for that tax return runs out.

The period of limitations is the period of time in which you can amend your tax return to claim a credit or refund, or the IRS can assess additional tax. The information below reflects the periods of limitations that apply to income tax returns. Unless otherwise stated, the years refer to the period after the return was filed. Returns filed before the due date are treated as filed on the due date.

Note: Keep copies of your filed tax returns. They help in preparing future tax returns and making computations if you file an amended return.

Period of limitations that apply to income tax returns

1. Keep records for 3 years if situations (4), (5), and (6) below do not apply to you.
2. Keep records for 3 years from the date you filed your original return or 2 years from the date you paid the tax, whichever is later, if you file a claim for credit or refund after you file your return.
3. Keep records for 7 years if you file a claim for a loss from worthless securities or bad debt deduction.
4. Keep records for 6 years if you do not report income that you should report, and it is more than 25% of the gross income shown on your return.
5. Keep records indefinitely if you do not file a return.
6. Keep records indefinitely if you file a fraudulent return.
7. Keep employment tax records for at least 4 years after the date that the tax becomes due or is paid, whichever is later.

The following questions should be applied to each record as you decide whether to keep a document or throw it away.

Are the records connected to property?

Generally, keep records relating to property until the period of limitations expires for the year in which you dispose of the property. You must keep these records to figure any depreciation, amortization, or depletion deduction and to figure the gain or loss when you sell or otherwise dispose of the property.

If you received property in a nontaxable exchange, your basis in that property is the same as the basis of the property you gave up, increased by any money you paid. You must keep the records on the old property, as well as on the new property, until the period of limitations expires for the year in which you dispose of the new property.

What should I do with my records for nontax purposes?

When your records are no longer needed for tax purposes, do not discard them until you check to see if you have to keep them longer for other purposes. For example, your insurance company or creditors may require you to keep them longer than the IRS does.

Other Important Documents

- Car Records (keep until the car is sold)
- Credit Card Receipts (keep with your credit card statement)
- Insurance Policies (keep for the life of the policy)
- Mortgages / Deeds / Leases (keep 6 years beyond the agreement)
- Pay Stubs (keep until reconciled with your W-2)
- Property Records / improvement receipts (keep until property sold)
- Sales Receipts (keep for life of the warranty)
- Stock and Bond Records (keep for 6 years beyond selling)
- Warranties and Instructions (keep for the life of the product)
- Other Bills (keep until payment is verified on the next bill)
- Depreciation Schedules and Other Capital Asset Records (keep for 3 years after the tax life of the asset)

The information contained in this document is for informational purposes only and does not constitute formal tax advice. Tax laws and regulations are complex and subject to change. The application of tax laws can vary significantly based on individual circumstances. Therefore, it is essential that you consult with a qualified tax professional regarding your specific situation before making any decisions or taking any action based on the information provided in this handout

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