IRS

The first step of good tax planning is good recordkeeping

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Year-round tax planning is for everyone. An important part of that is recordkeeping. Gathering tax documents throughout the year and having an organized recordkeeping system can make it easier when it comes to filing a tax return or understanding a letter from the IRS.

Good records help:

- **Identify sources of income.** Taxpayers may receive money or property from a variety of sources. The records can identify the sources of income and help separate business from nonbusiness income and taxable from nontaxable income.
- **Keep track of expenses.** Taxpayers can use records to identify expenses for which they can claim a deduction. This will help determine whether to itemize deductions at filing. It may also help them discover potentially overlooked deductions or credits.
- **Prepare tax returns.** Good records help taxpayers file their tax return quickly and accurately. Throughout the year, they should add tax records to their files as they receive them to make preparing a tax return easier.
- **Support items reported on tax returns.** Well-organized records make it easier to prepare a tax return and help provide answers if the return is selected for examination or if the taxpayer receives an IRS notice.

In general, the IRS suggests that taxpayers keep records for three years from the date they filed the tax return. Taxpayers should develop a system that keeps all their important information together. They can use a software program for electronic recordkeeping. They could also store paper documents in labeled folders.

Records to keep include:

- **Tax-related records.** This includes wage and earning statements from all employers or payers, interest and dividend statements from banks, certain government payments like unemployment compensation, other income documents and records of virtual currency transactions. Taxpayers should also keep receipts, canceled checks, and other documents – electronic or paper - that support income, a deduction, or a credit reported on their tax return.
- **IRS letters, notices and prior year tax returns.** Taxpayers should keep copies of prior year tax returns and notices or letters they receive from the IRS. These include adjustment notices when an action is taken on the taxpayer's account, Economic Impact Payment notices, and letters about advance payments of the 2021 child tax credit. Taxpayers who receive 2021 advance child tax credit payments will receive a letter early next year that provides the amount of payments they received in 2021. Taxpayers should refer to this letter when filing their 2021 tax return in 2022.
- **Property records.** Taxpayers should also keep records relating to property they dispose of or sell. They must keep these records to figure their basis for computing gain or loss.
- **Business income and expenses.** For business taxpayers, there's no particular method of bookkeeping they must use. However, taxpayers should find a method that clearly and accurately reflects their gross income and expenses. Taxpayers who have employees must keep all employment tax records for at least four years after the tax is due or paid, whichever is later.
- **Health insurance.** Taxpayers should keep records of their own and their family members' health care insurance coverage. If they're claiming the premium tax credit, they'll need information about any advance credit payments received through the Health Insurance Marketplace and the premiums they paid.