WHAT RECORDS TO KEEP FOR THE IRS?

Keeping accurate records is integral to any business , but the following questions should be asked...

What records might you need to prepare your tax return?
What records should you retain after filing your tax return?
How long should you keep them?

Here's a list of some of the records you should put aside for tax time. For more detailed info please visit the IRS website and read Publication 552 (PDF)

One key to tax-time sanity is creating some type of filing system (or computer-based accounting system) that will allow you to track and maintain this information throughout the year to make your annual search for tax records a bit less... well... taxing. If you use a computer-based system, note that you still need to keep the original paper documents listed here too, because the IRS won't just take your word on the accuracy of your computer data.

Generally, returns can be audited for up to three years after filing. However, the IRS may audit for up to six years if there is substantial unreported income.

Important Records

- Income received
- Expense items, especially employment or business related
- Home improvements, sales, and refinances
- Investment purchases and sales
- The documents for inherited property
- Medical expenses
- Charitable contributions (varies with value of gift)
- Interest and taxes paid
- Records on nondeductible IRA contributions

What to Save After You Prepare Your Return

You've completed your tax return and find that you have enough records to fill a large dump truck and a small wheelbarrow. Now what? How long do you have to hang on to all this stuff? Well, the answer is a bit complicated.

Unless fraud, evasion, or a substantial understatement of income is involved in your tax return, Uncle Sam generally has only three years to tap you on the shoulder and ask to see the underlying documents necessary to support information reported in your tax return -- a pleasant process known as an audit.

Remember, unlike the "innocent until proven guilty" assumption used by our criminal justice system, with the IRS you must prove the validity of your tax return. You have to sweat out three years before you can rest easy that your return hasn't been selected for audit. Usually that countdown period begins on the date the tax return is required to be filed (April 15th). If you file after your normal filing date, the three-year clock begins to tick on the date that the IRS actually receives your return.

This three-year period is commonly called the "statute of limitations." In some cases, the statute of limitations can extend for a longer period of time, but normally you're looking at three years.

Much of what you need to keep in the form of records depends directly on the statute of limitations for an IRS review. Here are some guidelines:

Your copy of the tax return: Keep it forever. That's right. You never want to dispose of your copy of the tax return. You never know when this document will come in handy. Remember that, in many cases, the IRS destroys the original returns after four or five years. It's always best to have your copy to fall back on. I'd also like to see you keep your W-2 forms with your tax return indefinitely. Why? You never know when you might need your W-2 slips to correct a Social Security earnings statement. Copies of your W-2s can be very valuable in future years... and they don't take up much space.

Canceled checks, deposit statements, and receipts: Generally, keeping these for three years is enough. Because of various combinations of the statute of limitations and technical carry-back and carry-forward provisions in the code, though, keeping them for longer than three years is preferred -- five years is better, and seven years is best. But make sure that these canceled checks and receipts are only for transactions that have an impact on this single year... such as receipts for your itemized deductions or interest income. In other words, if a receipt is for something that won't appear on your tax return for several years (such as home improvements), then you'll want to hang on to it for at least three to seven years beyond when it actually appears on your return.

Stock trade confirmation receipts/statements: Keep these statements for at least three years after both ends of the transaction (both buy and sell) have closed. Again, five or seven years are even better.

Improvements to property: Keep proof of those improvements until at least three years after the sale of the property in case you need to prove your basis in the property when it was sold. This is true for rental property, investment property, and even your own personal residence. Remember when you added that new backyard deck and patio to your rental property in 1987? Well, you'd better still have that receipt -- and keep it with receipts for other improvements to that property for at least three years after you sell it. In cases like this, it is very possible that you'll have records 10, 20, 25 years old or older. It's not uncommon if you're retaining your records appropriately. And again, keeping these records five or seven years beyond the sale date is even better.

Escrow closing documents: Keep these a minimum of three years after the property is sold. You'll want to retain both the purchase escrow and sales escrow statements. Much like your stock confirmation statements, you'll need to show both sides of the transaction and be able to prove your improvements. And, as always, keeping the records for five or seven years past the sale is an even better bet.

The key is to think before you throw anything out. Don't just simply throw out some records because somebody gave you an arbitrary time period to hold your records. Take a look at the document and see if it has any impact on any future or prior tax transaction that is not yet out of the statute of limitations period. If you think there may be some future impact, then keep it. If there is no future impact, then you can likely introduce it to your personal shredder. Think before you shred and you'll be just fine.

BUSINESS PLAN BASICS

A business plan precisely defines your business, identifies your goals, and serves as your firm's resume. The basic components include a current and pro forma balance sheet, an income statement, and a cash flow analysis. It helps you allocate resources properly, handle unforeseen complications, and make good business decisions. Because it provides specific and organized information about your company and how you will repay borrowed money, a good business plan is a crucial part of any loan application. Additionally, it informs sales personnel, suppliers, and others about your operations and goals.

Plan Your Work

The importance of a comprehensive, thoughtful business plan cannot be overemphasized. Much hinges on it: outside funding, credit from suppliers, management of your operation and finances, promotion and marketing of your business, and achievement of your goals and objectives.

"The business plan is a necessity. If the person who wants to start a small business can't put a business plan together, he or she is in trouble," says Robert Krummer, Jr., chairman of First Business Bank.

Despite the critical importance of a business plan, many entrepreneurs drag their feet when it comes to preparing a written document. They argue that their marketplace changes too fast for a business plan to be useful or that they just don't have enough time. But just as a builder won't begin construction without a blueprint, eager business owners shouldn't rush into new ventures without a business plan.

Before you begin writing your business plan, consider four core questions:

- What service or product does your business provide and what needs does it fill?
- Who are the potential customers for your product or service and why will they purchase it from you?
- How will you reach your potential customers?
- Where will you get the financial resources to start your business?

For assistance in creating your business plan, contact Vision Financial Group Today.

SELECTING AN INDEPENDENT FINANCIAL ADVISOR

An independent financial advisor is a professional practitioner who functions in a conflict-free environment, offer a wide range of financial advice to their clients, and are able to offer totally unbiased advice on all financial matters.

The benefits of using the services of an independent financial advisor accrue to the investor throughout the relationship.

- When designing your portfolio, an IFA is free to consider all of the thousands of investment alternatives available today. There are no artificial limitations on which investments you can use since they are independent financial advisors.
- When building your portfolio, an IFA can weigh the merits of one investment against another, recommending investments only because they will contribute to the success of your investment strategy. There is no pressure, and no incentive, to sell you proprietary products.
- When assessing your portfolio’s performance, an IFA can use objective criteria to gauge the performance of each investment. An expert financial advisor can help you track the progress of your portfolio toward the financial goals you’ve set, and advise you when it is appropriate to make changes and when it’s time to stay put.

Let Vision Financial Group assist you in selecting am Independent Financial Advisor. Contact us today!