

SELF-EMPLOYMENT RECORDKEEPING



Everyone in business must keep records. Keeping records is very important to your business. Good records will help you monitor the progress of your business, prepare financial statements, identify sources of your income, keep track of your deductible expenses, keep track of your basis in property, prepare your tax returns, and support items reported on your tax returns.



WHAT RECORDS DO I KEEP?

Tax law does not require any specific kind of records. You can choose any recordkeeping system suited to your business that clearly shows your income and expenses. Types of records include:

1. **Supporting Documents**: purchases, sales, payroll, and other transactions you have in your business generate supporting documents. Supporting documents include sales slips, paid bills, invoices, receipts, deposit slips, cancelled checks, etc. These documents contain information you need to record in your books.
2. **Journal**: a book where you record each business transaction shown on your supporting documents. You may have to keep separate journals for transactions that occur frequently.
3. **Ledger**: a book that contains the totals from all your journals. It is organized into different accounts.

Whether you keep paper or electronic journals and ledgers and how you keep them depends on the type of business you are in.

For example, a recordkeeping system for a small business might include the following items:

- Business checkbook
- Daily and monthly summary of cash receipts
- Check disbursements journal
- Depreciation worksheet
- Employee compensation records, and
- Mileage logs.



HOW LONG SHOULD I KEEP RECORDS?

The length of time you should keep a document depends on the action, expense, or event which the document records. 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.

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.

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



WHAT ABOUT EMPLOYMENT TAXES?

Keep all records of employment taxes (taxes paid to your employees) for at least four years after filing the 4th quarter for the year. These should be available for IRS review. For a list of records, [click here](#).



I RECEIVED AN AUDIT NOTICE, WHO HAS THE BURDEN OF PROOF?

The responsibility to prove entries, deductions, and statements made on your tax returns is known as the burden of proof. You must be able to prove (substantiate) certain elements of expenses to deduct them. Taxpayers meet their burden of proof by having the information and receipts (where needed) for the expenses. You should keep adequate records to prove your expenses or have sufficient evidence that will support your own statement. You must have documentary evidence, such as receipts, canceled checks, or bills, to support your expenses. Additional evidence is required for travel, entertainment, gifts, and auto expenses.

The information on this flyer is not legal advice.

If you are seeking representation or legal advice, please contact SEOLS.

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How to contact SEOLS:

www.seols.org or call 844-302-1800

We have offices in Athens, Chillicothe, New Philadelphia,
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