Tax Record Retention

Taxpayers are required to keep accurate, permanent books and records so as to be able to determine the various types of income, gains, losses, costs, expenses and other amounts that affect their income tax liability for the year. The records must be retained for as long as they may be, or may become, “material” for any federal tax purpose. Generally, records that support an item of income or deduction on a tax return should be kept at least for the period of limitation for that return regarding applicable limitation periods.

- **General Three-Year Period.** Generally, all income taxes must be assessed within three years after the original return is filed (the last day prescribed by law for filing if the return was filed before the last day). In the case of pass-through entities, the three year rule begins to run at the time the pass-though entity’s shareholder or other beneficial owner files an individual income tax return. A return filed prior to its due date is deemed to have been filed on the due date.
- **Omission of Over 25% of Income.** If the taxpayer omits from gross income (total receipts, without reduction for cost) an amount in excess of 25% of the amount of gross income stated in the return, a six year limitation period on assessment applies. An item will not be considered as omitted from gross income if information sufficient to apprise the IRS of the nature and amount of such item is disclosed in the return or if any schedule attached to the return.
- **False Return or No Return.** Tax may be assessed or a court proceeding to collect tax may be commenced at any time if:
    1. the return is false or fraudulent,
    2. there is a willful attempt to evade tax, or
    3. no return is filed

  In addition, in the case of a fraudulent return, the government may impose additional taxes at any time, without regard to statutes of limitations, although the burden of proof falls on the government to prove fraud by the taxpayer.