

Re: 2023 Tax Planning: Recordkeeping for Small Businesses

Dear Client,

Small business owners should keep good records. This applies to all businesses, whether they have a couple dozen employees or just a few. Whether they install software or make soft-serve. Whether they cut hair or cut lawns. Keeping good records is an important part of running a successful business. Here are some questions and answers to help business owners understand the ins and outs of good recordkeeping.

Why should business owners keep records?

Good records will help them:

- Monitor the progress of their business
- Prepare financial statements
- Identify income sources
- Keep track of expenses
- Prepare tax returns and support items reported on tax returns

What kinds of records should owners keep?

Small business owners may choose any recordkeeping system that fits their business. They should choose one that clearly shows income and expenses. Except in a few cases, the law does not require special kinds of records.

How long should businesses keep records?

How long a document should be kept depends on several factors. These factors include the action, expense and event recorded in the document. The IRS generally suggests taxpayers keep records for three years.

How should businesses record transactions?

A good recordkeeping system includes a summary of all business transactions. These are usually kept in books called journals and ledgers, which business owners can buy at an office supply store. All requirements that apply to hard copy books and records also apply to electronic business records.

What is the burden of proof?

The responsibility to validate information on tax returns is known as the burden of proof. Small business owners must be able to prove expenses to deduct them.

How long should businesses keep employment tax records?

Business owners should keep all records of employment taxes for at least four years.

Contact Us

Please call our office to discuss your business and we can assist you in identifying the proper records to substantiate your business transactions.

Sincerely,

EWK Legal, Tax & Accounting Services

For clients who are small business owners. (04/07/2023)