

Best Tax Practices – Recordkeeping & Receipts

For Adjustments, Deductions, Credits, and Expenses

101 NOVICE:

Very little recordkeeping is required for people who only have W-2 income and who claim the Standard Deduction. However, as things change for you - the taxpayer, things change for your tax return. The more things change, the more records you must have to be able to sustain (prove in) an audit. Your recordkeeping is rarely seen by anyone other than you or those that help you with your recordkeeping until you are audited when your recordkeeping and receipts may want to be examined by the taxing authority (audit).

Most tax preparers cringe when someone comes into their office with their big brown bag of receipts and the client expects to go through them with the preparer. The preparer is usually not the bookkeeper and most tax preparers do not handle receipts. Handling receipts is your job or your bookkeeper's job.

201 INTERMEDIATE:

There are legal, technical and specific definitions for what is an **Adjustment**, a **Deduction**, a **Credit**, and for an **Expense**. The average person does not know or understand the difference and will usually refer collectively to all of these as their “deductions,” “write-offs” or “expenses.”

For those areas where you may have an Adjustment, Deduction, Credit, or an Expense, there are specific categories; learn and use the categories.

301 ADVANCED:

Get a sheet-feed scanner and use it for your receipts and records. Back up your computer!

BEST PRACTICE: Keep and categorize all receipts and hire a bookkeeper if necessary; it is much easier to discard those you don't need on April 16 than it is to be wishing you had saved them on April 14th.

Postscript: Generally, the IRS does not allow one to write off their “personal” expenses (except for those items that are allowed when itemizing deductions - including but not limited to medical, mortgage interest & property taxes, charity and some job expenses). So, your weekly trip to the grocery store for milk and bread, has no tax consequence to you and therefore you do not need to keep the receipt. Same for socks and underwear, your commute to work, your vacation or your Thanksgiving trip, over the river and through the woods to grandma's house, etc.