

How Long Should Your Business Keep Financial Records?

7 min read



Business owners know that maintaining financial records is necessary for generating financial reports, budgeting, making payroll, and keeping up with the general requirements of operating a business.

Key Takeaways

- **How Long to Save Your Company's Financial Records:** As a general rule of thumb, though, most businesses hold onto their financial records for seven years and their employee records for 10 years...
- **Digitize Your Records:** Office space is limited, secure storage is expensive, and financial records can pile up quickly. Plus, receipts and other documents fade and smudge, becoming illegible, over time...
- **Creating a Compliant and Efficient Back Office:** An experienced management accounting provider can help you select a bookkeeping and accounting software that will pair well with a variety of financial-record-keeping apps...

However, what many business owners do not know is how long the business needs to keep financial records.

Holding onto your company's financial records and ensuring they're stored safely and securely is essential to maintaining compliance with the Internal Revenue Service, the federal government, and your state and local governments. But for just how long should a business keep records?

What Are Financial Records and Why Is It Important to Save Them?

When it comes to getting audited for tax or other compliance purposes (such as during a merger and acquisition or for another purpose), the governing bodies of our federal and local governments will not simply take your financial reports at face value. When it comes to backing up the numbers reflected on tax documents and financial reports, business owners bear the burden of proof.

You need to save the evidence so that you can back up every number filed with your tax return or calculated on your [financial reports](#).

So, your business needs to keep items including:

- Receipts

- Credit card receipts
- Invoices
- Cash register tapes
- Deposit records (cash and credit sales)
- Canceled checks
- Proof of electronic payments
- Bank statements
- Employee reimbursement requests
- Petty cash slips
- Accounts payable and receivable ledgers
- Payroll records
- Payroll tax records
- Tax filings, previous tax returns, and supporting documents
- Accounting services records
- W2s, W9s, and 1099s (etc.)
- Employee files
- Job applicant information

Your business should keep original documents, copies, or scanned electronic files to document any evidence to support an item of deduction, credit, or income reflected on your tax return or other financial reports (balance sheet, income statement, and [statement of cash flow](#)).

Additionally, you keep copies of the following documents on record at all times:

- Articles of incorporation
- Annual reports
- Ownership records
- Business permits
- Copies of contracts signed with employees, contractors, vendors, and clients
- Healthy and safety documents

How Long to Save Your Company's Financial Records

If accountants had it their way, businesses would keep meticulous records and hold onto them forever (just in case and for the data!). As a general rule of thumb, though, most businesses hold onto their financial records for seven years and their employee records for 10 years.

The actual requirements for how long you need to (or should) hold onto your business's financial records can vary from three to seven years on average and beyond that time span when it comes to storing employment records.

Generally, the [following documents](#) need to be kept for the following periods of time:

- Past Tax Filings - 3 years
- Receipts - 3 years

- Employment Tax Records - 4 years
- Miscellaneous Financial Records - 4 years
- Tax Filing With Omitted Income - 6 years
- Tax Filings With Deductions Related to Worthless Securities or Bad Debt - 7 years
- Financial Records Connected to Property - The time to keep these records depends on your deductions and schedules of depreciation. Hold onto titles, deeds, and cost records such as equipment purchase receipts for at least three years following the last tax filing the property was included on.

Keep in mind that there's no statute of limitations if you do not file a tax return or if you file a fraudulent tax return. You will be indefinitely liable for backing up your claims or filing for any missed tax periods.

How Long Do You Keep Your Business Records? 5 Best Practices for Storing Financial Records

1. Choose a Secure Location

Whether you're storing physical, paper records, or digitized versions, you need a secure location. These documents are not only necessary in the event of an audit but also often contain sensitive information. This is especially true if you're holding onto employment records or the personal information of your clients.

Records should be stored in a place that can be securely locked and that is also safe from flooding and fires. Additionally, digital records should be stored in a secure manner where they will not be vulnerable to cybercriminals.

Read More: [How Much Do Bookkeeping Services for Small Businesses Cost?](#)

2. Digitize Your Records

Office space is limited, secure storage is expensive, and financial records can pile up quickly. Plus, receipts and other documents fade and smudge, becoming illegible, over time. For these reasons alone, it makes sense to digitize your records. Digital records also offer additional benefits such as streamlining your bookkeeping and accounting processes. Additionally, with proper file naming, categorizing, and labeling, digital records are much easier to search specific documents when compared to boxes and boxes of paper files and faded receipts.

3. Establish a Blanket Storage Policy

If you are storing paper records in physical files, then you'll want to establish and document your system and policies for storing both financial and employment records. Your specific system and guidelines will depend on your business's resources and available time.

If you have the space, then a simple way to minimize the job of getting rid of records you no longer need is to set a blanket shredding timeline where you keep all of the records from any given year for the maximum number of years you are required to hang onto any single type of document from that year. Then, once the time is up, simply discard everything from that year at once.

This system helps you save time by avoiding the task of sorting through all of your records every year to determine bit by bit what needs to stay and what can go. If your storage space is limited, however, this isn't always the best option. For limited record-keeping space, we strongly recommend digitizing your files.

6 KPIs Every Business Owner Should Be Looking at

Download The One Page Scorecard Guide to learn the 6 KPI charts to help drive performance and profitability in your business.

4. Clean Up Annually

Digital records are easy to store safely forever. So, while it is nice to have a neat and tidy digital filing system that isn't mired in extraneous files, it isn't necessary - in terms of office and storage space - to routinely purge these records. Just ensure they're organized properly and stored in a safe location.

If, however, you're holding onto file boxes of paper records and hard copies of receipts, you'll need to set up a calendar reminder to routinely purge these documents. It's best to set yourself up on an end-of-year or beginning-of-year schedule of clearing out and securely disposing of your oldest year's records before moving the most recent documents into storage. This ensures you don't waste space, holding onto documents you no longer need while also making sure you always have enough space to store your newest financial records.

Read More: [Financial Reports vs. Management Reports: What's the Difference?](#)

5. Get Professional Guidance

When establishing a policy for storing your business's records, your best safest option is to talk with an expert. With respect to financial records, get in touch with an accounting professional who is familiar with the rules, regulations, and standards in your industry as well as federally and within your local government.

With respect to employment records, most payroll and payroll tax documents fall under financial regulations. However, there are separate concerns under employment, workers' compensation, and human resources laws that you will also need to heed. So, it is best to speak with a lawyer who specializes in employment law to ensure you're meeting all of the rules and regulations regarding the maintenance, preservation, and storage of your employee files.

Creating a Compliant and Efficient Back Office

In addition to ensuring you're following all of the rules and operating compliantly, expert assistance - especially with a professional management accounting services provider - can also help you select and establish a more efficient record-keeping and storing system. An experienced management accounting provider can help you select a bookkeeping and accounting software that will pair well with a variety of financial-record-keeping apps. This can help you automate your system of data collection and storage to ensure complete records while minimizing the paper footprint in your office.

With a sound bookkeeping and accounting system and an [outsourced](#) partner with knowledge and experience in your industry, you can rest easy, knowing you're always operating compliantly and 100% ready for an audit.