

You may choose any recordkeeping system suited to your business that clearly shows your income and expenses. Except in a few cases, the law does not require any special kind of records. However, the business you are in affects the type of records you need to keep for federal tax purposes. Your recordkeeping system should also include a summary of your business transactions. This summary is ordinarily made in your business books (for example, accounting journals and ledgers). Your books must show your gross income, as well as your deductions and credits. For most small businesses, the business checkbook is the main source for entries in the business books.

Supporting Business Documents

Purchases, sales, payroll, and other transactions you have in your business will generate supporting documents such as invoices and receipts. Supporting documents include sales slips, paid bills, invoices, receipts, deposit slips, and canceled checks. These documents contain the information you need to record in your books. It is important to keep these documents because they support the entries in your books and on your tax return. You should keep them in an orderly fashion and in a safe place. For instance, organize them by year and type of income or expense. For more detailed information refer to [Publication 583, Starting a Business and Keeping Records](#).

The following are some of the types of records you should keep:

- **Gross receipts** are the income you receive from your business. You should keep supporting documents that show the amounts and sources of your gross receipts. Documents for gross receipts include the following:
 - Cash register tapes
 - Bank deposit slips
 - Receipt books
 - Invoices
 - Credit card charge slips
 - Forms 1099-MISC

- **Purchases** are the items you buy and resell to customers. If you are a manufacturer or producer, this includes the cost of all raw materials or parts purchased for manufacture into finished products. Your supporting documents should show the amount paid and that the amount was for purchases. Documents for purchases include the following:
 - Canceled checks
 - Cash register tape receipts
 - Credit card sales slips
 - Invoices

- **Expenses** are the costs you incur (other than purchases) to carry on your business. Your supporting documents should show the amount paid and that the amount was for a business expense.

Documents for expenses include the following:

- Canceled checks
- Cash register tapes
- Account statements
- Credit card sales slips
- Invoices
- Petty cash slips for small cash payments

• **Travel, Transportation, Entertainment, and Gift Expenses**

If you deduct travel, entertainment, gift or transportation expenses, you must be able to prove (substantiate) certain elements of expenses. For additional information on how to prove certain business expenses, refer to [Publication 463, Travel, Entertainment, Gift, and Car Expenses](#).

- **Assets** are the property, such as machinery and furniture, that you own and use in your business. You must keep records to verify certain information about your business assets. You need records to compute the annual depreciation and the gain or loss when you sell the assets. Documents for assets include the following:

- When and how you acquired the assets.
- Purchase price
- Cost of any improvements.
- Section 179 deduction taken.
- Deductions taken for depreciation.
- Deductions taken for casualty losses, such as losses resulting from fires or storms.
- How you used the asset.
- When and how you disposed of the asset.
- Selling price.
- Expenses of sale.

The following documents may show this information.

- Purchase and sales invoices.
- Real estate closing statements.
- Canceled checks.

Employment taxes

There are specific employment tax records you must keep. Keep all records of employment for at least four years

We hope you find this explanation helpful. If you have any questions please do not hesitate to call one of us.