Record Retention Guidelines and Sources

Records management has become a science – there are fields of study at many universities dedicated to information management. Records may be tangible documents or digital documents. Provisions should be made for both types of documents in the record management policy. Below are some considerations for developing your policy. Use these as guideposts rather than as the definitive answers. The last section contains sources for further use with policy development.

Identification

First step, identify the needs of the organization. What records will you need for reporting purposes? Do any records have historical significance for the organization? What are the legal requirements for keeping documents? What are the requirements by outside organizations, such as creditors or insurance companies, to retain documents? Classify your documents into categories. Use the following points as a starting point for classification:

- Tax documents
- Employment records
- Assets documentation
- Accounting (non-tax) records
- Historical records
- Insurance records
- Corporate records
- Legal records (charters, articles of incorporation, trustees' records)

Legal Requirements

Because of the corporate scandals in the last decade, Congress brought us the Sarbanes-Oxley Act that contains prohibitions on document destruction for documents that may be involved in litigation. Yet other documents are governed by state requirements. Having a written, defined policy on record retention with a specific schedule for document destruction clearly lets people know which documents to retain and which to destroy is sound risk management. The IRS also offers guidelines on the types of documents to retain and the timeframe for retention.

Retention Schedule

How long should I keep documents? A variety of sources offer the following guidelines.

From the IRS Small Business site, use the following suggestions:

1. Tax returns – permanently
2. Employment Records – four years after the tax is due or was paid, whichever is later
3. Asset records – keep until the period of limitations expires for disposing of the asset in a taxable disposition
4. Nontax records – check with outside sources such as creditors or insurance companies for extra requirements

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The Massachusetts Society of Public Accountants, Inc., Federal Taxation Committee, prepared a handbook with suggestion retention guidelines. From their site, CPA.Net , I found the following guidelines. The handbook lists more specific examples.

Accounting records …………………………………………… (Ledgers, bank statements, expense reports, cash sale slips and charge slips, vendor invoices, for example)	**7 years**
Cancelled checks ………………………………………………	**10 years**
Financial statements …………………………………………… (Balance sheets, trial balances, other statements)	**Permanently**
Taxation records …………………………………………………	**Permanently**
Legal records ……………………………………………………	**Permanently**
Corporation documents ………………………………………...	**Permanently**

From the Council of Nonprofits, the following records are recommended to retain permanently:

- Articles of Incorporation
- Determination Letter from the IRS
- Insurance policies
- Minutes of meetings corporate resolutions

Sources

As you can see, record retention is important for risk management and demonstrates sound management, both important concepts to attract donors and funding for nonprofits. Below are additional sources to consult when developing a record management policy.

- http://www.councilofnonprofits.org/document-retention-policies
- IRS Regulation - 26 CFR 1. 6001- 1, The Guide of Record Retention Requirements in the Code of Federal Regulations, as well as by reviewing and analyzing numerous record retention schedules.
- Treas. Reg. 1.6001- 1, Materiality Rule - governs that all books and records must be maintained so long as they remain material in the computation of any tax.
- The Sarbanes – Oxley Act, SEC 17CFR. Note section 210.2-06 which requires that work papers and other documents that form the basis of an audit or review, including memos, correspondence and e- mail which contain opinions, analysis or financial data, including those that are inconsistent with the auditor’s final opinion, be retained for a period of 7 years.