Record retention for small businesses
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Proper retention of paper and electronic records is required by law for businesses and is a sound financial practice that will save you time and costs in fines and penalties. It also helps you make better informed decisions about your business's future. Here are a few guidelines for record retention.

Accounting records

Whether you prepare your own books or use an outside consultant, retaining your accounting systems records for the correct timeframe can be key when faced with an audit. Here are examples of financial documents that must be retained for specific time frames:

Permanent Records—Balance sheets; financial statements; check register; cash disbursement and receipt record; income tax returns; payroll tax returns; sales tax returns; profit and loss statements; journal entries; general ledger; and investment – sales/purchases.

Seven years—Accounts payable; accounts receivables; bank statements and reconciliation; vendor invoices; petty cash records; purchase orders; expense reports; and charge and cash sales slips.

Four years—FICA/income tax withholdings.

Three years—Bank deposit slips and budgets.

Corporate records and fixed assets

All corporate records must be retained permanently, excluding internal audit records (6 years) retention), contributions (7 years) and accounting correspondences (5 years).

All fixed asset records, such as your business's property register, depreciation schedules, property appraisals, and plans and blueprints, must be retained permanently.

Human resources and payroll

Most of human resources and payroll records must be kept while a person is employed with your company and then can disposed of after the outlined timeframe, which begins after termination. Businesses may purge some of these records after 3 to 7 years.

Permanent Records—Retirement plans agreements and employee W-2 forms.

Ten years—Worker's compensation benefits; employee withholding exemption certificates; and payroll records.

Seven years—Attendance records; medical benefits; performance records; personnel files; payroll checks; and time reports.

Five years—Safety reports; garnishments; and life insurance benefits.

Three years—Family and medical leave; and contractors (from date of contract completion).

Due to the extensive nature of employee records, consult your CPA to discuss your records and the appropriate record retention period.

Record storage and purging

Small business owners should keep at least the past two years of records in the office. This will allow you to easily find important information when you need it.

If you are lacking in space, use a third party document management and storage company. Make sure you are also complying with state and federal regulations when disposing of any documents. You don’t want to risk allowing private or sensitive financial information to fall into the wrong hands.