

# RECORD RETENTION GUIDELINES FOR PASTORS AND CHURCHES

## Reprint of a Column for *Focus on the Family*

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I favor a conservative approach to record retention guidelines by Pastors and Churches. I think it's better to keep records too long (banker's boxes don't take up that much space in a closet or a storage area, and you can easily make high resolution scans and store them on computer with secure backup) rather than throw out records that are later needed and cannot be replaced or duplicated. Since in most cases the IRS cannot audit a tax return more than 3 years back, one can assume that 4 years is the correct time limit for most important records. I consider this a minimum. Here are some thoughts on specific types of records:

### A. TITHE AND GIVING RECORDS

Since there is no legal requirement for a church to store any financial records for its members, including its Pastor, I recommend that tithe and giving records such as cancelled checks, notated calendars (for cash giving), and other giving records be kept for at least 4 years. Since the cut-off date for the 3-year time limit on tax audits is the date the tax return was filed, the extra year will cover the 3 to 8 month extension period beyond the actual tax year in question. Church receipts to the Pastor for giving may even sometimes be considered a better record of giving to a church than cancelled checks, for example under the new church \$250 reporting law. Again, bear in mind that the church has no legal obligation to maintain giving records for church donors, including the Pastor. It is the responsibility of those giving donations to maintain proof of their giving, in case they are ever questioned.

### B. TAX RETURNS AND PAYROLL RECORDS

These would include your Federal and State tax returns, as well as W-2's and 1099's that you have received. Keep them at least 4 years. *Tip:* many ministers keep only the "penciled in" copy of their tax returns, rather than making an exact photocopy of what they filed. This can lead to problems later. Always keep *exact duplicates* of anything you file with the Federal government.

If you maintain household help, or other types of employees (including independent contractors receiving 1099's), I recommend you keep payroll records at least 4 years, as well, pretty much for the same reasons outlined above for tithe and giving records. It is reasonable to expect that the IRS will consider it your duty to maintain payroll records at least 4 years.

*Tip:* Don't forget to check Social Security Administration records each 3 years to be sure they are crediting your FICA taxes correctly. You can do this by filing Form SSA-7004 It's quite simple to fill out, you'll receive back a comprehensive record of your social security payments and benefits. Since in many cases SSA records can only be corrected if errors are caught within 3 years, it's a good idea to file this form at the beginning of each third year.

### C. CANCELLED CHECKS

Cancelled checks and bank statements should be kept up to 10 years. The reasoning behind this is that cancelled checks are final evidence of the bill being paid, and they cannot be replaced. Many smaller banks keep cancelled checks on microfilm for only 2 years. In

some cases, they may be kept longer, but sometimes the cost of getting them is prohibitive (I know of at least one minister who was audited for a return filed 3 years ago. The checks had been thrown out, and the bank quoted a cost of \$10,000 to replace that year's check records). After a period of time, your physical cancelled checks are not only the best, but in many cases, the *only* proof of payment of bills, expenses, and so forth. In case of an audit, these records could be invaluable. Since they are irreplaceable, I advise you to keep them for at least 10 years, and then begin discarding the last year as you add the current year to the archives. That way, you'll always have 10 years' backup on your checks. More than likely, checks beyond 10 years would not be useful to you, since most legal statutes of limitation will have passed by that time. Many larger banks now offer several years of backup online, but you need to download those on a current basis and make your own secure local computer backup, in case your bank gets hacked, or they change their online backup policies.

#### D. RECEIPTS AND INVOICES

Regarding purchase receipts or invoices from stores, and so forth, I think these should be kept for 5 years because they are the only written record you will have of items that you've purchased. They may contain information about quantities purchased and serial numbers as well as other relevant information that might come in handy at a later time. They certainly would be valuable in the case of an audit, but their usefulness may also extend into such situations as having to exchange an item, making a warranty claim, re-ordering a particular part or item that hasn't been ordered for 3 or 4 years (where no one can remember exactly what the right number was), and the like.

Other examples:

- Credit reports

- Insurance claims records

#### E. AUTO RECORDS

If you own an automobile, I believe you should keep all records pertaining to that automobile for at least 5 years after the car has been sold. The reason being that, in some cases, if there were an accident or the automobile was involved in some kind of problem, you would have written records stating the time that you owned the car, when you sold it, who you sold it to, what the mileage was, your insurance records, and so forth and so on. This could protect you in the event that there had to be an insurance claim made or if some other kind of problem arises. Of course, you want to maintain a file on each automobile during the time you own the car as well. You could just keep that file for another 5 years after you sell the car.

#### F. CONTRACTS

As far as contracts go, such as for home maintenance work, repairs, equipment maintenance, etc., I think you probably ought to keep these for 6 years after the contract has been completed. The reason, again, is if you had a warranty claim or if there were ever some dispute about payment -- if another company took over the company you dealt with and made some kind of claim, you'd have proof of what happened, and, for instance, what the original contract said. The legal statute of limitations for contracts is 6 years in many states. I personally filed a warranty claim on my condo for the expensive double-

paned windows that became defective long after the warranty period had expired. Because I had good records and a generous claims processor, I now have new windows.

Other examples:

- Employment contracts, other employee records
- Investment records
- Promissory notes
- Leases
- Business Agreements
- Surety bonds
- Customs records and clearances

#### G. PERMANENT RECORDS

Finally, there are certain documents that need to be maintained on a permanent basis such as:

1. Deeds
2. Insurance Policies
3. Financial Statements
4. Loan Records and Documents
5. All Other Official Government or Financial Records

Deeds, of course, that relate to real estate that you have bought should be kept indefinitely because real property can have things happen concerning it years after you no longer own the property. During ownership of property, you want to have a copy of the description or deed which may show any restrictions on the property, tax information on deeds, and certain information that you couldn't get anywhere else. A deed is normally recorded in the Recorder of Deeds Office, and you can get a copy of it at any time, but there is a charge, and possibly somewhat of a waiting period -- plus having to go down to the courthouse and find it, and should there be a problem with the court records, you might have the only copy at some point.

I know of at least one case where a problem came up 15 years after the owner sold a piece of property, and fortunately, most of the original documents were still maintained. A lawyer had the rest of them, and the problem was worked out. That's why it's important to hang on to permanent records. Other examples:

- Mortgages, including satisfactions
- Surveys of land and maps
- Title insurance policies
- Closing statements
- Blueprints on house
- Tax Assessors records
- Appraisals
- Building permits
- Easements
- Engineering and soil reports
- Zoning permits or other records

For insurance policies, it's always good to keep insurance policies indefinitely because if there ever were a claim which might come up years after a particular incident, and if there ever were an award to, for example, someone injured on the property or for some other kind of claim that might not be immediately apparent, you'd want to have copies of your insurance policy in order to cover that eventuality.

There is a business now where Fortune 500 companies are paying \$50,000 or \$75,000 for someone to find out the exact version of the insurance policy they had 10 years ago. Many people throw out their policies every 3 or 4 years, and claims may have come up, but they no longer know whether the claims are covered or not. This is because insurance companies often change the wording in their standard policies, and it becomes important to know the exact wording in the policy that was in force at the time. So, keep your insurance policies indefinitely.

Financial statements that you maintain each year should be kept indefinitely because many times banks want to go back several years, perhaps when you're buying a new home. They may want to look back several years for other credit purposes as well.

All other official government or financial records of any kind that would be of a permanent nature should be kept in a separate file or file drawer some place that's secure. They should be kept indefinitely. There are government records that might be invaluable at some point for you at a time when you might not think of it, and it's always easier to go to a file and dig out old records than it is to be totally at a loss if those records are ever needed, but you can't find them. Some records might have been destroyed either by the government agency or whoever might have issued them, and you, again, may have the only copy, so you want to be sure that you have those. More than likely, you may never need many of them, but it's always better to have it and not need it, than need it and not have it. You can also make a good quality color scan and hard drive backup.

Examples include:

- Wills
- Trusts
- Annuity contracts
- Pensions and Retirement plan records and documents
  - Mutual fund records (or 4 years after fund is completely liquidated)
- Diplomas
- Medical records
- Federal, State, and Local licenses of various kinds
- Copyrights
- Trademarks
- Patents
- Legal opinions
- Litigation records
- Powers of attorney

There's no reason in the world not to go beyond these guidelines. These guidelines are intended to try to protect you from many of the problems that could arise from not having adequate records. Certainly, if you want to keep any of the records mentioned longer, that's all the better.

## HOW LONG SHOULD YOU KEEP THE SETTLEMENT DOCUMENTS ON YOUR HOUSE?

Forever. Or at least 4 years after you sell your very last home. Why?

Because many of the items listed on your settlement sheet are not deductible in the year you bought your home (even though they may be covered by your minister's housing allowance).

However, these items can often be carried over to subsequent home purchases -- spanning decades of time -- before they come into play if you decide to finally take the gain on your home, or if the gain is more than your special one-time exclusion.

It's only then that you may need settlement sheets from prior home purchases and sales -- even decades earlier.

Aren't taxes fun?

Sheltering the capital gain on each succeeding home sale is a major tax break, so it's worth the extra trouble of keeping these documents in a safe place.

Here's an idea: Just keep all home purchase and sale papers in a special file, so you always know where they are. Or, you could store these in your safe deposit box at the bank. Or scan in high quality color mode, to a secure computer which is backed up.

*Tip:* Another kind of record that can span decades of time are mutual fund investment records. Since these funds are often held until retirement, and since the correct tax treatment depends on the date and amount of each separate purchase, as well as whether a particular contribution was pre-tax or after-tax, I recommend these records be kept on a permanent basis, or at least until each fund has been completely liquidated.

*Trap:* Since in some cases, for example where a mutual fund is not part of your retirement program, but has been held merely as an investment, the correct tax treatment can depend in some cases on tax returns filed years ago. If you are a Pastor who likes to invest in mutual funds which are not part of your retirement planning, you may want to consider keeping your tax returns on an indefinite basis. *Failure to do so commonly leads to double taxation of mutual fund gains.*