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The Facts About IRS AUDITS

There are two main categories of IRS audits – personal tax return audits and business tax return audits. Personal tax return audits are usually done at the IRS office while business tax return audits are usually done at the taxpayer's place of business or the accountant's office, wherever the taxpayer chooses.

The IRS ran a program called TCMP (taxpayer compliance measurement program) for over three decades. They are now replacing TCMP with a more current – and user friendly – guidance: the Market Segment Specialization Program (MSSP). The new program's major advantages stem from its development during the transition to a kinder, gentler IRS. The MSSP also benefits from having emerged in the Internet Age. The manuals and audit guides upon which the system relies can easily be updated and obtained and most information is accessible to the public. The main objectives of the IRS's newfound openness are to increase involuntary compliance and make the audit process more efficient and effective.

The MSSP audit guides derive from a list of "areas of focus," industries and types of businesses that the IRS had determined need highly specialized information and guidance in order to prepare tax returns fully and adequately. The new program has already identified 28 categories of taxpayers, including 24 business and farm categories and four non-business categories. Each audit guide discusses the market segment and the relevant tax law and lists specific audit techniques. Taxpayers and practitioners can use these audit guides to understand the applicable tax law and prepare the documentation that an examiner might eventually require.

Personal tax returns can be selected for audit by several methods. The first method is the DIF score method. Every personal tax return is given a DIF score when it is processed through the IRS computer. The higher the score, the more chance of being selected for an audit. Several months after returns are filed the District Director of each residential area determines available workforce for performing audits. This includes the number of audits the District Director expects the district to accomplish during the next year. Based upon the budget, the

IRS computer automatically selects from the highest DIF scores down until enough returns have been selected to satisfy the budget requirements of the district.

Another method comes from the Adjustment Section of the computer center. This is the mistake section. If an addition or computation mistake is made on the form, the computer can't process it without human help. Thus, the return is passed over to the Adjustment Section for correction. If the Adjustment Section can't figure out the mistake, the return is referred for audit.

A third method is The Special Project Method. This is also a computer method of selection. If the IRS determines that there is tax abuse in a specialized area, the computer searches the database for deductions in that particular area and the whole return is audited. This method can also be used for certain types of occupations, such as doctors, waiters, tax preparers, etc.

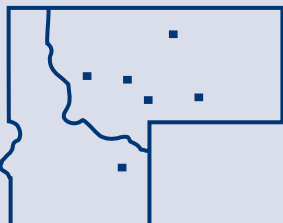
The Information Returns Factor Method is yet another method by which a return may be selected for audit. All W-2s and 1099s are submitted to the IRS. The IRS then records the social security numbers from these documents and matches them to the social security numbers on submitted tax returns. If the numbers don't match, the likelihood of an audit is increased.

A random selection method is the last method of audit selection. All tax returns are submitted into a computer random number generator. The tax returns previously selected for audit with high DIF scores, mistakes, tax abuse areas, and non-matched information are taken out. A certain number of tax returns are picked at random to ensure that the needed four million tax returns are audited on an annual basis. Fewer than one half of one percent, 0.46%, of all individual income tax returns filed is audited.

The process of selecting business returns differs from the process of selecting individual returns. Returns selection for businesses, such as corporations and partnerships, is more subjective and can be based on specifically identified industries or businesses. The returns selected for business audit do not always have specific areas indicated for audit. The examining agent at the local level may determine the direction of the audit while on the business site.

*THE GALUSHA REPORT
presents information on
tax and business matters
of general interest. Since
the information is presented
in summary form, we urge
you to consult your tax
or business advisor
before taking action.*

BILLINGS, BOZEMAN, HAVRE,
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IDAHO FALLS, ID



HOW TO AVOID AN AUDIT

Why me? You just received an invitation to a “party” you hoped you would never have to attend—an IRS audit. Here are a few highly probable scenarios that increase the odds of an audit.

1. Mathematical Errors and Mistakes

Few audits are generated by mathematical mistakes alone. The IRS computer automatically corrects both math errors and mistakes where claimed deductions exceed the limits set by the tax code, such as the 7.5% adjusted gross income limitation on medical deductions. However, too many of these kinds of errors may indicate a sloppy return that may lead to a full audit.

2. DIF Scores

Most returns are selected for audit on the basis of a computer-generated program that compares your deductions to others in the same income bracket and weighs the differences (DIF score). For example, a taxpayer with a \$40,000 salary would rarely have \$9,000 in charitable contributions. This doesn't mean you should not claim the contribution deduction. It only means you should be prepared to prove those contributions. The DIF score also considers not only income and deductions but where you live, family size, and profession as well.

3. Self-Employment Income

Your source of income may increase the chances of being audited. First, recognize that if you are self-employed, you have more opportunity to either “hide” your income or “create” deductions by converting personal expenses into business expenses. The IRS is aware of the myriad “business vehicles” that go away to college every September. Always be prepared to substantiate your expenses.

4. Profession

Your profession itself may increase your chance of being audited. The IRS has specific audit programs aimed at specific professions. For example, professions that receive much of their income in cash, such as people who work in the gaming industry, waiters, and even doctors, are prime audit targets. The more cash received, the higher the income potential, the more likely the IRS is to find additional tax dollars by reviewing your return.

5. Substantiation

In the audit itself, the IRS will focus on those items where taxpayers have historically failed to keep the required substantiation. Traditionally, auto, travel, meals and entertainment have been the areas most frequently audited. To deduct auto expenses, you must establish the percent of business use as well as the actual expense incurred. One way of establishing both of these is to keep a mini-cassette recorder in the car to record business mileage and purpose. A written diary of miles used for business would also be acceptable.

With respect to meals and entertainment, you must have a receipt for all expenditures of \$75 or more. The rule is simple: no receipt, no deduction. If the expense is less than \$75, a diary notation is

sufficient. The following information is necessary for both receipt and diary notation:

- a) the amount paid;
- b) the name/location of the facility;
- c) the person entertained;
- d) person's business relationship; and
- e) business discussion related to the entertainment.

Remember, with the IRS, paper rules! Don't come into an audit with a carton of miscellaneous receipts. The more organized the receipts and more paper produced, the easier for an IRS agent to conclude you are organized; have full substantiation and owe no additional tax.

6. One of the Lucky Ones

The IRS computer selects many returns on a random basis. Sometimes income, deductions, or where you live are irrelevant – your number just comes up, and you win the audit lottery. The IRS can audit you for three years after you file your return. In reality, however, most returns are audited within 18 months of filing. This gives the IRS time to do the review and request the appropriate substantiation before the statute of limitations ends. Once the statute has run out, the IRS normally cannot audit your return and your expenses are insulated from examination.

7. When to File Early, When to Wait

Most people prefer to have their return filed early. If a refund is due and audit issues are not a concern, file early and get your money back. If taxes are due with no penalty for underpayment, wait to file. Don't ever pay a federal tax bill before it is due. It is an interest-free loan to the IRS.

On the other hand, if there is a concern about a potential audit, you should not wait to file until the last minute. Filing at the last minute will not decrease your chances of being audited.

“The IRS computer selects many returns on a random basis. Sometimes income, deductions, or where you live are irrelevant – your number just comes up, and you win the audit lottery.”

WHAT TO DO IF SELECTED FOR AN AUDIT

The first thing to remember if your return has been selected for an audit is not to panic. Remember the audit is merely an exercise in which you are asked to prove the deductions claimed on your return. The audit process itself, however, may be costly and time-consuming even if you win. The objective is to give you strategies and techniques to minimize the audit plan.

Rule No. 1: Never attend your own audit. If the audit is simple, mailing copies of the receipts can substantiate claims. If the agent wants a face-to-face meeting, hire an accountant. While you may be completely clean, you are not trained in what not to say. A seemingly innocent remark might lead the auditor to investigate new areas, even if you can substantiate the expenses deducted. This adds to your frustration and costs you time. A representative can provide a buffer of protection between you and the IRS auditor, especially if questions arise that make you uncomfortable. If you personally attend the audit, the opportunity to think and reorganize before you respond can be lost.

Rule No. 2: Know your rights. If an auditor becomes abusive or unreasonable, demand to speak with the auditor's manager. If that doesn't end the problem, contact the IRS Problem Resolution Office. An Internal Revenue Service manual supplement details the rights to which you, as a taxpayer, are entitled. They include, but are not limited to:

1. The right to prompt, courteous, and impartial treatment.
2. The right to a reasonable amount of time to produce requested documentation.
3. The right to receive copies of your tax returns from the IRS.

Unfortunately, only taxpayers who know their rights can enforce them. If an agent appears to be limiting your rights, you should take immediate action. Ask to speak to the group manager, call the Problem Resolution Office or, if it is serious, call your local Congressional and Senate offices. Let them help you.

When the IRS is at your door, do not panic. Treat the agent with respect, as a professional. Give the agent the name, address of your representative and ask the IRS to contact your representative. Do not volunteer any information and don't answer any questions. Let your representative actually represent you.

Harvey Capellen, Staff Accountant
Havre Office

How much is employer-provided lodging worth?

In the agricultural industry, it is not uncommon for an employer to provide lodging to its employees. As long as the lodging is required as a condition of the employment and is provided on the employer's premises, the value of the lodging will not be taxable compensation to the employee on his income tax returns. When preparing workers' compensation wage reports, however, compensation reported by the employer must include the value of the lodging provided to its employees.

Determining the value of lodging provided on the employer's property is usually not a black and white issue. Unless the employer has recently rented the housing from a third party, there is nothing definite on which to base the value of the housing. Determining the value of the housing is a matter of judgment, and of weighing the facts and circumstances unique to each employer.

While the employer would like to minimize the value of the lodging so that it will pay lower workers' compensation premiums, the Montana State Fund or any workers compensation insurance provider would like a higher housing value so there is more money available to pay claims in the event an employee is injured. For many years, employers have justified reporting low lodging values by considering facts such as the size and physical condition of the living quarters, how far the home is from town or a larger city, and how much they felt an unrelated party would be willing to pay to rent the home. The Montana State Fund has been fairly lenient in accepting these low values.

If an employee living in employer-provided housing becomes injured and is no longer able to work, he or she will probably be faced with finding another place to live. When the Montana State Fund calculates the amount of benefits this employee is entitled to receive, they must also include the value of housing since his employer had provided housing to the employee. For purposes of calculating the benefits, however, the Montana State Fund must consider the amount the injured worker will have to pay for replacement housing, rather than the amount the employer included on its workers' compensation reports.

The difference in the housing valuation for premium purposes versus benefit calculation purposes results in the Montana State Fund having to pay out benefits for higher compensation amounts than they have collected premiums on. In an attempt to close the gap between the housing values reported for premium collection purposes and benefit payout purposes, the Montana State Fund's auditors have recently begun to propose adjustments to employers' accounts if they feel an employer has valued the housing too low. One auditor has indicated that while it has not set definitive values, the Montana State Fund feels that a reasonable value of lodging will usually fall in the \$250 - \$350 per month range. The Montana State Fund realizes that, for some employers, reporting the value of housing in this range may result in a substantial premium increase. The auditors may be willing to allow employers to gradually increase the value of the lodging to the levels recommended by the Montana State Fund.

Please contact your GHG professional if you have questions about how this may impact you.

Susan Helgeson, LPA
Havre Office



C. Wayne Smith, CPA
Shareholder - Helena

Financial Planning - *Do you need a living trust?*

You've probably heard of living trusts, which are also called revocable living trusts or "inter vivos" trusts by lawyers. Perhaps your financial advisor, accountant, or attorney has advised you that you should have one. But if you're like most people, you still have some basic questions: What is a living trust? Do I really need one? How much does it cost to set up?

What is a Living Trust?

A living trust is a trust that you set up during your lifetime, to which you transfer most or all of your assets. The trustee is in charge of trust property. You (or you and your spouse if you create a trust together) are the trustee of your revocable living trust, which means that you keep control of the trust property. As trustee, you can transfer property in and out of the trust, change the beneficiaries you've named or revoke the trust completely. At death, the trust becomes irrevocable and its income and assets are disposed of under terms specified by you in the trust document. Unlike a will, it avoids probate at death if all assets are owned by the trust. (Probate is the legal process through which the court sees that, when you die, your debts are paid and your assets are distributed according to your will or as specified by law. The probate process has been perceived as time consuming, expensive, inconvenient and unnecessary.)

Some Advantages to a Revocable Living Trust:

1. Allows a corporate trustee to provide professional asset management.
2. Can be changed or cancelled at any time.
3. Allows for quick distribution of assets to your beneficiaries.
4. Is more difficult to contest than a traditional will.
5. Protects against legal incompetency or physical incapacity.
6. May help you avoid costs and time delays of probate at death—fees often eat up 4% or more of the value of the property and last between 6 months to 2 years.

7. Prevents multiple probates if you own property in more than one state.
8. Provides privacy regarding the size, contents, and beneficiaries of your estate.
9. Can retain assets until beneficiaries reach a more mature age.
10. May be written to include specific tax reduction features—marital deduction, charitable deductions, unified credit and other tax reduction techniques.
11. Prevents court from controlling finances when minor children inherit.
12. Can protect dependents with special needs.
13. Allows you to name alternate beneficiaries – people who will inherit if your first choice doesn't survive you.
14. Ensures continuity of management in the event of your death or disability.
15. Can be used to measure the competency of the trustee while you're still alive.
16. Provides for the distribution of your assets exactly as you wish.

Some Disadvantages to a Revocable Living Trust:

1. Can cost time and money to set up.
2. May produce hassles if you attempt to refinance property owned by the trust.
3. Might, if real estate is placed in the trust, cause you to pay transfer tax.
4. Does not reduce state tax liability (if it exists).
5. Requires giving up personal ownership of assets, which can have psychological impact.
6. Requires transferring assets to the trust, which may be administratively inconvenient.
7. Is not under automatic court scrutiny.
8. May help you avoid probate, but this is not always desirable—estates can receive certain creditor and court protections as well as potentially desirable income tax benefits.

Do I Really Need a Living Trust?

Even though a living trust is undoubtedly the most flexible way to avoid probate, not everyone needs one. Simpler and cheaper probate avoidance methods may be used.

Here are a few factors to consider before you make your decision:

1. Your age and health. If you are young and healthy, writing a will (in which you name a guardian to raise the children), and perhaps buying some life insurance, would be cheaper and easier than creating a living trust.
2. Your marital status. If you are married, you probably own many of your valuable assets together with your spouse. If you hold title in joint tenancy with right of survivorship, (in some states) tenancy by the entirety, or (in some states) community property with right of survivorship, the property won't have to go through probate when the first owner dies.
3. How much you own. Most states allow certain amounts or types of property to be transferred without probate, or by a streamlined court procedure, even if it's left by will. If your estate is eligible for these simpler procedures, you may not need to go to the trouble of making and maintaining a trust.
4. What kind of assets you own. If your money is in the bank, brokerage or retirement accounts, you can name payable-on-death beneficiaries for each account. This is a simple and effective method of avoiding probate.
5. How much you owe. If you have a business that has many creditors, you may want your assets to go through probate, to take advantage of the cutoff period for creditors' claims. If creditors don't make their claims by the deadline, they're out of luck.

How much does it cost to set up a Living Trust?

The cost of drafting the trust could run anywhere from \$800 to \$5,000. How much you pay will depend on how complicated your plan is. Be sure to ask for an estimate in advance.

Although living trust kits are available over the Internet for as little as \$15, you should engage an experienced attorney to help you avoid the pitfalls commonly encountered in the use of probate avoidance arrangements.

If you are married or have assets over \$200,000, you owe it to your family to investigate the best means to preserve your hard-earned wealth. For estates over \$1 million, you may want to combine a living trust with other advanced estate planning techniques.

Thanks to one of our readers of the December 2001 issue of THE GALUSHA REPORT, it has come to my attention that a correction is required regarding a statement I made in my article entitled, "Who should buy long-term care insurance?" In that article I stated, "Medicare will cover just 100 days of nursing home care when it follows a hospital stay." The correct statement is: "Medicare, Part A, will cover just 100 days of skilled care in a skilled nursing facility for medically necessary inpatient care after a hospital stay." All covered services for the first 20 days are fully paid by Medicare. All covered services are paid by Medicare for the next 80 days,

except for a daily coinsurance amount. If an individual requires more than 100 days of care, he or she is responsible for all charges beginning with the 101st day. A skilled nursing facility is different from a nursing home—it is a special kind of facility that primarily furnishes skilled nursing and rehabilitation services.

Additional information regarding Medicare may be obtained by calling Medicare at 800-633-4227 or on the Internet at www.hcfa.gov or www.medicare.gov.



Electronic Filing of Tax Returns

E-filing is the way of the future. According to the Internal Revenue Service, millions of taxpayers file electronically each year. The Galusha offices have been successfully offering the service to our clients for several years. We are now making the transition to file all individual tax returns electronically. For the 2000 tax year our Bozeman office filed nearly all of their clients' individual tax returns electronically with wonderful client satisfaction.

A benefit of e-filing is increased accuracy when the IRS processes your tax return. With e-filing there is a less than one percent error rate as opposed to an error rate of 20 to 21 percent with paper filing. Even more enticing is the turnaround time with refunds. You can expect to have your refund within three weeks of acceptance of your e-filed tax return. The tax returns are usually accepted within 48 hours. The refund comes even more quickly if you use direct deposit.

How does electronic filing work? We prepare your tax return in the traditional manner. Once the client has reviewed the tax return and approves it for filing, the client provides an electronic signature. There are two ways to provide electronic signatures. Form 8453 is a signature document that has limited information from your tax return that will uniquely identify the tax return as yours. Form 8453 is signed by the client and then sent to the IRS upon confirmation from the IRS that they have received the tax return. There is also a paperless method whereby the client chooses a self-selected Personal Identification Number (PIN) or authorizes the tax professional to select the PIN. If the PIN method is used, the client signs Form 8879, which is retained by the tax professional.

Since we are making the move to file the majority of our clients' individual tax returns electronically, you will find that we are requesting certain information from you that you may not have been asked for in the past.

We will need:

- *Taxpayer's birth date*
- *Spouse's birth date*
- *You may be asked to select a PIN or we can do that for you*

Also, if you want to have your refund directly deposited or your balance due directly debited from your checking or savings account, we will need:

- *The name of your bank.*
- *Your bank account number*
- *Your bank routing number*
- *Type of account, checking or savings*

If you have a balance due you can e-file your return at any time and either have the amount due paid by direct debit from your checking or savings account or send in the payment with a payment voucher to the IRS by April 15. You can also choose whatever date you would like to have the direct debit transaction occur, as long as it is by April 15.

If you are entitled to a refund you may have that directly deposited to your checking or savings account, or you can receive it by check.

Wendy Lynn Gerky
Havre Office



Despite the changes, Garrett continues to emphasize a few of Office Equipment Co.'s traditional keys to success:

- *Have the products in stock that customers want.*
- *Educate and train staff.*
- *Service before, during and after the sale.*

There are many local businesses that continue to use Office Equipment Co. for their business needs. The Havre GH&G office is one of those happy customers. Curt Barnekoff, managing partner of the Havre GH&G office says, "We were customers of Office Equipment Co. when we opened our Havre office in 1980. The company has provided us with such high quality service for over 21 years that we use Office Equipment Co. as an example for our own employees to follow in the area of client service. Providing professional services to a business such as Office Equipment Co. is an enjoyable challenge because there is something new happening all the time. I feel fortunate to have been a part of the successful transition of the business from Ray to Garrett."

Garrett identifies several factors that he believes are critical in GH&G's successful relationship with Office Equipment Co.:

- *GH&G has broad exposure and experience in business transactions and various business situations.*
- *The team at GH&G is always friendly and willing to help.*
- *GH&G's responsive staff finds answers to questions.*

Garrett believes that his business has continued opportunity for growth, even in a highly competitive environment. He is confident that his accounting, tax and business needs will be taken care of, with a smile, at GH&G.

- **Client:**
Office Equipment Co.

- **Business:**
Office equipment, furniture, computer, supplies and service

- **Location:**
Havre, Montana

- **Size:**
11 Employees

- **Length of Relationship:**
21 years

- **Services provided:**
Tax and accounting, tax planning, business and management advice, family ownership transition

Early in 1998, Ramon Edmonds and his son, Garrett, approached GH&G with a challenge. It was time to structure the transition of ownership and management of Ray's local office supply and equipment business to Garrett. Ray had started Office Equipment Co. over three decades earlier, and with the help of loyal employees and many local customers, the business had grown into a solid, reputable provider of super service and quality products.

Prior to the transition, Garrett had spent several years learning the nuances of the business. Ray could see that Garrett had made a commitment to providing top-notch customer service, the backbone of the company's success. In addition, Garrett had plans to take the business into new areas that would enhance service, sales and profits. The father/son team needed an accountant and business advisor who could help structure the ownership transition. They also desired a proactive professional who would provide versatility and a variety of services with the changing needs of the business. They turned to the team of professionals in the Havre office of GH&G. Curt Barnekoff, CPA, the local bank and Edmonds' attorney formed the team that helped Ray and Garrett structure the deal. The transition was finalized within months.

Since then, the business has grown significantly, increasing sales by over 75 percent. A management team, designed to focus on stronger customer service and customer product needs, has aided this growth. Technology has also played a major role. The company realized significant sales from the computer product line and network structuring. In addition, the company streamlined its internal accounting system by converting to a "point of sale" computer system. The company also uses the Internet extensively for online ordering of inventory as well as customer sales, support and communication.

Weather Related Deferrals



Weather Related Deferrals

During the past year, many Montana farmers and stock growers have experienced serious drought conditions. In some areas of North Central Montana, 2001 was the third consecutive year of drought conditions. These conditions have caused farmers to reap less than normal crop yields and have caused stock growers to sell more animals than normal.

As a result of the drought conditions, farmers and stock growers may have accelerated income into 2001, which would have normally been recorded in a subsequent year. This acceleration of income may place an individual farmer or stock grower in a situation of grouping two or more years of income into the current year. Federal tax law provides tax relief to farmers or stock growers who elect to defer income or to not recognize gains. Each of the three tax laws described below requires a tax election be made with the producer's income tax return.

Crops

IRC 451(d) provides income deferral of insurance proceeds as a result of destruction or damage to crops. This includes damage from drought, flood, other natural disasters, or the inability to plant due to a natural disaster. A farmer using the cash basis of accounting may include the crop insurance payments in the tax year received. If the farmer's normal marketing practice establishes that the crop would have been sold in a subsequent year, the farmer may elect to defer income to the next year. Revocation of this election can only be made with the approval of the IRS. An election to defer insurance proceeds includes all insurance proceeds and federal disaster payments received. An exception is made for farmers who grow various crops and can establish a separate trade or business for each crop.

Note: USDA Federal disaster payments received in 2001 pertained to the 2000 crop year, so these disaster payments are not allowed to be deferred.

Livestock

IRC 451(e) provides income deferral of livestock sales proceeds as a result of drought, flood or other weather-related conditions. A stock grower using the cash basis of accounting may include the sales proceeds in the tax year received or may elect to defer livestock sales that exceed a stock grower's normal business practice to the next year. Revocation of this election can only be made with the approval of the IRS. The sales proceeds are apportioned between the number of livestock normally sold and the excess sold due to the drought or other weather conditions.

Breeding Stock

IRC 1033(e) provides nonrecognition of gain related to breeding livestock sales proceeds as a result of drought, flood or other weather-related conditions. A stock grower using the cash basis of accounting may include the sales proceeds in the tax year received or may elect not to recognize the income due to an involuntary conversion. The sales proceeds are apportioned between the number of livestock normally sold and the excess sold due to the drought or weather conditions. Involuntary conversion applies to cattle that are twenty-four months old and used for draft, breeding, dairy, or sporting purposes, or other livestock held for twelve months. Involuntary conversion requires that the disposed livestock be replaced within a two-year period. The replacement livestock must have the same function as the livestock involuntarily converted (e.g., dairy cows must be replaced with dairy cows, not with draft animals). If the stock grower fails to replace the livestock within the two-year period, or if the replacement cost is less than the nonrecognized gain, the stock grower must amend the tax return for the year of the election and report the realized gain, or portion thereof.

In conclusion, a farmer or stock grower's product marketing practices will dictate whether a deferral of income is available under these income tax provisions. If insurance or excess livestock proceeds were received due to drought conditions, then a farmer or stock grower should consider deferring the income to a subsequent year based upon the individual's economic and tax situation. Your GH&G professional will be able to determine if these deferrals are advantageous to your agricultural business.

Richard E. Dolezal, CPA, MS
Havre Office

“Federal tax law provides tax relief to farmers or stock growers who elect to defer income or to not recognize gains.”



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Records Retention Policy

We are often asked about the length of time various business records should be kept. The following are general guidelines that can be tailored to your business requirements. This listing is not all-inclusive, so if you are in doubt be sure to seek professional advice.

Retain Indefinitely

- *Audit reports by accountants*
- *Bills of sale for major items*
- *Cancelled checks, major items and taxes*
- *Capital stock and bond records*
- *Cash books*
- *Charts of accounts*
- *Contracts and leases*
- *Correspondence, legal and important subjects*
- *Credit history*
- *Deeds and mortgages*
- *Depreciation schedules*
- *Financial statements, year-end*
- *General and private ledgers*
- *Insurance records*
- *Journals*
- *Minute books and by-laws*
- *Certificates of incorporation*
- *Property appraisals*
- *Property records*
- *Tax returns and supporting documentation*
- *Trademark registration*

Retain for Seven Years

- *Accident reports and claims, settled cases*
- *Accounts payable and receivable ledgers*
- *Cancelled checks, unimportant items*
- *Cancelled stock and bond certificates*
- *Contracts and leases that have expired*
- *Employee W-4 forms*
- *Expense analysis and distribution schedules*
- *Expired option records*
- *Inventory records, products, supplies, materials*
- *Invoices, customer and vendor*
- *Notes receivable ledgers*
- *Payroll and related records*
- *Petty cash vouchers*
- *Plant cost ledgers*
- *Purchase order copies*
- *Royalty computations*
- *Sales records*
- *Scrap and salvage records*
- *Subsidiary ledgers*
- *Time books*
- *Vouchers of payments*

Retain for Five Years

- *Computations of excise tax*
- *Internal audit reports*

Retain for Three Years

- *Correspondence*
- *Employee savings bond registration records*
- *Employment applications*
- *Employment personnel records (after termination)*
- *Expired insurance policies*
- *Internal reports*
- *Physical inventory tags*

Retain for Two Years

- *Voting proxies of shareholders*
- *General correspondence*

Retain for One Year

- *Bank reconciliations*
- *Duplicate deposit slips*
- *Requisitions*

Marie Hobson, Staff Accountant
Havre Office

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