RECORD KEEPING

FOR YOUR TAX RETURN

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Introduction

This booklet gives you general advice about what records you need to keep for tax purposes and how long to keep them. It provides some examples of typical records you may need if you're:

- Completing a self-assessment tax return
- Making a claim for tax allowances or tax credits
- Keeping business records
- Employing others
- Completing a company tax return

Why good record keeping helps you

Whatever records you keep, it makes sense to organise and keep them in an orderly fashion. This will help you and your accounting professional (if you have one) as well as HMRC if they need to ask questions. If you're starting a business, help keep it on track by keeping good records from the beginning and you'll find it easier to keep your affairs up to date.

Records you should keep

You should keep any records and documents that you have received, or have prepared, that will be used to complete entries in your self-assessment or company tax return, or your claim form if you're claiming benefits or allowances. Most of these records will be from the tax year or accounting period to when they relate, or soon afterward.

However, you will sometimes need to refer to records that are already several years old. For example, if you dispose of an asset (such as land, shares or a valuable chattel like a painting) that you have owned for a long time, you may need to have older records to calculate a capital gain or loss.

The need to refer to old records can arise in other circumstances so please bear that in mind as you read this booklet.

You may have already discarded any records relating to events that happened before April 1996, as there was previously no obligation to keep them. It does not matter if you have not kept such items, but you should hold on to any such records that you still have and which may be relevant in the future.

What happens if you don't keep adequate records

If HMRC need to check your tax return for any reason and you are unable to show them the records that you used to complete the return, you may have to pay a penalty.

If you are charged any penalties, you have the right to appeal against them to the independent tribunal

How long to keep your records?

Individuals (not carrying on a business)

This includes the trustee of a settlement and the personal representative of a deceased person.

You must keep your records for 22 months from the end of the tax year to which they relate. For example, of you file your 2009-2010 tax return by the filing date, you should normally keep your records until 31st January 2012. You'll need to keep your records for longer if you file your tax return late, if HMRC have started a check of your tax return, or if you're buying and selling assets.

Self-employed or a partnership

You must keep your records for at least five years from the 31st January following the tax year that the tax return relates to. For example, if you file your 2009-2010 tax return by 31st January 2011, you should normally keep your records until 31st January 2016. You'll need to keep your records for longer if you file your tax return late, if HMRC have started a check of your return, or if you're buying and selling assets.

Companies

As well as registered companies, the word 'company' relates to anything within the charge to Corporation Tax, including members' clubs, societies and associations.

The records for an accounting period will normally have to be kept for six years from the end of that period. For example, if the accounting period ends on 31st December 2009, the records must be kept until 31st December 2015.

Please note that if you send in your return late, or it is subject to a compliance check, then the time limit for keeping records may be extended.

If you keep your records on computer

You can keep most records on a computer or use any storage device (CD, USB, Network drive, Cloud). You may not need to keep the original paper records as long as the method you use captures all the information (front and back) on the document and allows the information to be presented to HMRC in a readable format.

Most accounting software, such as Quickbooks Online, allows you to store the document in conjunction with the transaction which will make it a little easier to find.

Should HMRC visit for an audit or compliance check, they are not allowed to touch the equipment that you use to do your accounts or store your records. You will need to make sure that an appropriate person is available.

What you should do if your records are lost or destroyed

If your records are lost or destroyed and you can't replace them, you must tell HMRC what has happened and do your best to recreate them. Once you've gathered replacement information you can use this to complete your tax return. You must tell HMRC whether any provisional figures are used in completing your tax return. If you make adjustments at a later date and you've underpaid tax, there may be interest and penalties to pay.

With most accounting software, such as Quickbooks online, allowing you to store the document(s) attached to the transaction, there will be less chance of losing your document as these will be stored on their servers along with all your records.

Examples of the types of records you may need to keep

If you claim personal allowances, other deductions or reliefs

The types of records you will need to keep will depend on the number and complexity of the claims you make. They will normally fall into two broad categories.

1. Documents you have signed or been given

Records in the form of documents you have signed or which have been provided to you by someone else. For example:

- Court orders or other legally binding maintenance agreements (for those born before 6th April 1935)
- Forms EIS3 or EIS5 where you subscribe to the Enterprise Investment Scheme
- Gift Aid payments
- Personal pension plan certificates

It would also be sensible to keep a copy of:

- A birth certificate for a claim where age is a factor
- A marriage certificate where Married Couple's Allowance is being claimed (available only to taxpayers born before 6th April 1935)
- A certificate of your partner's or spouse's death if you are claiming Bereavement Allowance
- Notification that you are registered as a blind person

2. Personal financial records.

Personal financial records which support any claims based on amounts you actually paid or which show broadly what you spent, where that is relevant to a particular claim. Examples of the sort of records that may help support such claims are:

Bank statements and cheque stubs
Money order counterfoils
Certificates of loan interest paid by you
Receipts or other records showing dates and amounts of payments you made.

Also, you will need to keep records to support any claim to reduce your liability on the basis of non-residence on non-domicile (Helpbook HMRC6 will help explain what is meant by these terms).

The sorts of records that would help are:

- If you claim to be non-resident or not ordinarily resident
    - Records of living overseas and travel to and from the UK
    - Employment documents such as employment contracts or letters of assignment
- If you claim to be non-domiciled, evidence that shows which country is your permanent home.

If you are an employee, a director or an office holder

For income, benefits in kind and expenses payments you get from your employment, the records you need to keep could include the following:

- P60 – a certificate your employer will give you after the end of every tax year showing details of pay and tax deducted
- P45 (Part 1A) – a certificate from an employer showing details of pay and tax from a job you have left
- P160 (Part 1A) – you may be given when you retire and go on to a pension paid by your former employer

- You annual pension statement from your payer
- Your payslips or pay statements (you will also need certificates or other proof of any foreign tax you have paid on your employment income)
- P11D or P9D forms or equivalent information from all the employers you have worked for during the year, showing any benefits in kind and expenses payments given to you
- Information on any share options awarded or exercised or share participation arrangements
- A note of the amount of any tips or gratuities and details of any other taxable receipts or benefits not taxed in wages. These should be noted down as regularly as possible after you receive them so as to have an accurate record
- Certificates for any Taxed Award Schemes in which you have participated
- Information from any person or company, other than your employer, who provided you with benefits in kind in connection with your employment
- Information about any redundancy or termination payment

It would also be sensible to keep your forms P2 and P2X (PAYE Coding Notices) as they will help you to keep track of any earlier underpayments of tax that are being collected through PAYE.

Claim for expenses in employment or for reductions in benefits in kind

For expenses you claim against your earnings, or for reductions you claim against your employer's calculation of the benefits you received, you should keep records giving broad details to support your claim.

These can include:

- Mileage details (for example, a log showing dates, trips made and business miles travelled) and details of any additional costs you incurred such as parking or tolls.
- Foreign travel itineraries
- Receipts, vouchers, credit card statements and other proof of payment records, such as bank statements and cheque stubs
- Purchase records and leasing agreements relating to equipment, such as a computer for which you are making claims against your employment income.

If you don't get, or can't keep evidence of your expenses

Sometimes you may not get evidence such as a receipt for cash expenses, especially where the amounts are small. If this happens, you should make a brief note as soon as you can of the amount you spent, when you spent it, where you spent it and what it was for.

If you get a receipt or other evidence, you may have to give it to your employer to get a repayment of out-of-pocket expenses, or because your employer needs the information to calculate the worth of a related benefit provided to you. However, you should keep the broad details of these expenses in order to complete your expenses claim, and to support any claim you've made should HMRC make a check into your tax return.

You will not be expected to keep photocopies of bills (although you may find it helpful). Normally any checks into your tax return will be satisfied be the production of your own records.

If you use your own vehicle for business travel

When you use your own vehicle (car, van, motorcycle or bicycle) for business travel:

- You can be paid expenses in respect of business mileage at up to the specified rates without incurring any tax liability
- If you are paid more than the specified rates, the excess will be subject to tax (your employer will tell your HMRC office about this)
- If you are paid less than the specified rates, or nothing at all, you can claim relief (called Mileage Allowance Relief) up to the specified rates.

You should keep records of the business miles you travel and how much you have been paid in expenses

You should also keep records of any motoring expenses you incur other than mileage expenses such as parking or tolls. You will need them in order to claim for a deduction for those expenses.

The current approved mileage rates at present are:

	First 10,000 miles in the tax year	**Each business mile over 10,000 in the tax year**
Cars and vans	40p	25p
Motorcycles	24p	24p
Bicycles	20p	20p

If you use your own home for business

If you have established that part of your home has to be used for work, you will need to keep sufficient records to support the proportion of heating and lighting costs that relate to employment and to private use. It is not sufficient that you chose to work from home, you must be obliged to do so by your employer to claim additional costs. The allowable proportion will depend on the number of rooms in the home and to what extent they are used.

If however, you use simplified accounting, you can claim a flat rate for using part of your home as a place of work providing it is for 25 hours or more.

Hours of business use per month	Flat rate per month
25 to 50	£10
51 to 100	£18
101 and above	£26

If you claim other expenses

If you claim any other expenses, you will need to keep the necessary records to support them.

If you receive any form of social security benefits or a UK pension

Your records could include:

- Details given to you be the Department for Work and Pensions relating to State Pensions, taxable state benefits, Statutory Sick Pay, Maternity Pay, Adoption Pay, Paternity Pay and Jobseeker's Allowance
- Your form P60 – a certificate which may be given to you by the payer of your occupational pension, showing the amount of your pension and tax deducted
- Any other certificate of a pension you received and the tax deducted from it. It would also be sensible to keep your forms P2 and P2X (PAYE coding notices), which show the codes to be used for your occupational pension or earnings.

If you receive interest, dividends or other income from UK savings, annuity investments or trusts

Your records could include:

- Bank and building society statements or passbooks
- Statements of interest and any other income received from your savings and investments, for example annuity investments
- Any tax deduction certificates supplied by your bank
- Dividend vouchers received from UK companies
- Other vouchers such as scrip dividend vouchers (paper or electronic form)
- Unit trust tax vouchers
- Life insurance chargeable event certificates
- Details of any income you receive from a trust

It would also be sensible to keep details of exceptional amounts you used to fund your investments, for example a sum you inherited or any other windfall. You may also need to keep copies of correspondence and other documentation relating to your savings and investments.

If you are in a share scheme or receive share-related benefits

If you hold or receive shares of share options because of your position as an employee, director, or office holder of a company you will need to keep:

- Information about what you paid for your shares and the relevant dates
- Information about the market value of your shares at relevant dates, for example when you received them
- Correspondence from your employer about transactions involving your shares
- A copy of each share option certificate
- Details of any alterations in the rights or any restrictions attached to your shares, or to other shares in the company, leading to an increase in the value of your shares
- Details of any benefits you have received as an employee shareholder
- A copy of each share option exercise notice

If you have other income in the UK or foreign income or gains

Depending on the types of other UK or foreign income or gains you have, the records you need to keep could include:

- Those showing the amount of income that you receive, for example, a written agreement about the amount of freelance income you have received
- Dividend counterfoils from overseas companies
- Bank statements and other personal financial records to support the amount of any
- Certificates or other evidence of tax deducted in the UK, or paid or withheld at source in a foreign country, including, where appropriate, foreign notices of assessment and foreign tax receipts
- Details and, where possible, receipts for any expenses you claim

If you have capital gains or claim capital losses

The records you should keep will depend on your circumstances, but here are some examples of what it would be useful to keep:

- contracts for the purchase or sale, lease or exchange of your assets
- any documentation you have describing assets you acquired
- but did not buy yourself, for example, assets you received as
- a gift or from an inheritance
- details of any assets you have given away or put into a trust
- copies of any valuations taken into account in your calculation
- of gains or losses
- bills, invoices or other evidence of payment records such
- as bank statements and cheque stubs for costs you claim
- for the purchase, improvement or sale of assets.

It would also be sensible to keep correspondence with purchasers or vendors leading up to the buying or selling of your assets.

You might want to use an asset, such as your home, for both business and private purposes, or you may let out all or part of it at some time. If so, you will need to keep sufficient records to work out what proportion of any gain you make is potentially taxable, when you dispose of the asset.

If you run a business or work for yourself

The precise records you need to keep to meet legal requirements will depend on the type of taxes you need to pay and the size and complexity of your business. It is up to you to ensure that your tax return and VAT records, if you're VAT registered, are complete.

You'll need to:

- set up a system for keeping records in the first place
- maintain them regularly/frequently throughout the year
- keep them for as long as necessary – see *How long to keep your records* on page 4 of this guide.

Generally speaking, you'll need to keep evidence of all income and outgoings associated with your business or trade and, if you trade in goods, records of all sales and purchases made in the course of the trade.

Typical records you may need to keep

HMRC will normally expect you to:

- record all sales and other business receipts as they come in, and keep the records
- keep supporting records, for example, invoices, bank statements and paying-in slips to show where the income came from
- record all purchases and other expenses as they arise and ensure, unless the amounts are very small, that you have, and keep, invoices for them
- keep a record of all purchases and sales of assets used in your business
- record all amounts taken out of the business bank account, or in cash, for your own or your family's personal use

- record all amounts paid into the business from personal funds, for example, the proceeds of a life assurance policy.

Remember that sales include:

- goods taken from stock for your own, or your family's consumption, that are not paid for in cash
- goods or services supplied to someone else in exchange for goods or services (barter transactions).

Even if you do not record these through a till, you will need to make a record, at the time the transaction takes place, of the goods taken or supplied, and their retail selling price.

Bank and building society accounts

You need to keep all bank and building society statements and passbooks for any account into which any money from your business has been paid or credited, or out of which you have drawn any money for the business. If you do not have a separate business bank account, you need to keep records of which transactions were personal and which were business.

Unless your business is small or has few transactions, it would usually be helpful to maintain a separate bank account or accounts for the business.

Personal drawings

You should keep a record of any money you take for your own or your family's personal use from:

- business cash
- your business bank account, or
- your personal bank account if you do not have a separate business bank account.

If you withdraw money by cheque, an entry on the cheque stub will be enough to show that this is for personal use.

Money from private sources used in your business

You should keep a record of any private money brought into the business and where it came from (a legacy, a bank loan, friends or family, or the proceeds from a life assurance policy for example).

Stock and work in progress

At the end of your accounting year you should carry out a stocktaking exercise to identify the costs of you stock and/or work in progress, record the costs, and keep the record. You can get professional stock takers to do this for you. Keep their report.

Payments to employees

If you are an employer you will also need to keep records to back up any deduction in your accounts for wages, payments, benefits and such like, relating to your employees.

HMRC will carry out compliance checks and ask to see these records.

Payments to subcontractors in the construction industry.

If you make any payments to subcontractors you will also need to keep records to back these up.

Using record books (or spreadsheets)

The most suitable types of books you should use to summarise all your business transactions will depend on the nature and size of our business. For most businesses it is good practice to keep during the year:

- a cash book – a summary and analysis of all bank account entries or cash receipts, payments and drawings
- a petty cash book, or some other simple records of your petty cash transactions

If you run a larger business it may be useful for you to keep other account books as well. Your accounting professional, if you have one, can advise you on what extra books you should keep. If you do not have an accounting professional, you can ask HMRC for advice.

After the end of the year, you or your accounting professional may need to prepare other records to show how your business records have been used to arrive at the figures in your tax return.

Whatever record books you keep, you will find it easier if you write them up frequently. Amounts paid into, or taken out of, the petty cash should be recorded when the transaction goes through.

Expenditure without back-up evidence

You should back up all your expenditure with bills or other evidence. If, exceptionally, you do not get a receipt for some small items of cash expenditure, such as taxi fares or tips, you should make a note as soon as you can of the amount you spent and what it was for.

Common points of difficulty

Motor vehicles and other assets used for business and private purposes

If you use the same vehicle for both business and private purposes, you should keep enough details to enable you to split your total expenditure between business and private use. Usually it will be enough to keep a record of business and private mileage and split the vehicle running costs in the same proportions.

There may be other assets that you use for both business and private purposes, for example, a house or shop premises that includes a flat. Again, you should keep enough details to enable you to split your total expenditure between business and private use

Claiming losses for capital gains purposes – time limits

Time limits for claiming losses – individuals, trustees of settlements and personal representatives

If you made the loss in 1996-97 or a later tax year, you need to tell HMRC in writing or on your tax return. The time limit for claiming a loss where you have been given notice to make a tax return is four years after the end of the tax year in which you made the loss. If you made a loss in 1995-96, or an earlier tax year, and haven't used it, you don't need to tell HMRC about the loss until you want to use it.

Time limits for claiming capital losses – companies

A 'company' is any business entity with the charge to Corporation Tax, including members' clubs, societies and associations.

Most companies that made capital losses in accounting periods ending on or after 1st July 1999 are required to give notice of them in a company tax return, and any amount of unused losses will feature in the return for the following period.

A company that has been given notice to file a return has four years from the end of the accounting period in which the losses arose to tell HMRC about them, so that they can be set against future capital gains of the company.

Such companies will need to keep evidence that they told HMRC about their losses within four years of the end of the accounting period. They also need to keep evidence of the amount they told HMRC about and, if there was a compliance check, the amount of allowable losses that were finally agreed.

For all companies' losses suffered in accounting periods ending before 1st July 1999, you do not have to tell HMRC about these losses until you use them. This means that you should keep records of the losses until your tax affairs for the year you use them are finally settled.

Examples of records recommended for different types of business

Retail shop

You should keep:

- till rolls or other forms of electronic record of sales
- details of any other income, for example, commission for the National Lottery or football pools
- a separate record of
  - any goods taken for you own or your family's personal use, or provided in exchange for other goods or services
  - any other items not rung through the till, such as commission from football pools or dry cleaning, or rent from the flat above the shop
  - any cash taken out of the till to pay small business expenses
- bill/invoices for purchases and expenses
- a record of stock on hand at the end of the year
- all bank and building society statements, passbooks, cheque stubs and paying-in slips which include details of business transactions
- cash books
- details of any private money brought into the business
- details of any money taken out of the business bank account. Or in cash for you own or your family's personal use
- details of any assets used for both business and private purposes
- if you are registered for VAT, you will need to keep additional VAT records.

Subcontractors in the construction industry

You should keep a record as you go along of all the money due to you from contractors and anybody else you do work for.

Your record should show:

- the name of the contractor or client
- how long you worked for them for every contract or job
- the amounts you have received
- any amounts that are due to you

You should keep copies of all invoices you issue. You will also need to keep details of the costs of the materials that you used to do the job.

If you have been paid under deduction, that is, with an amount taken off your payment, on account of you tax and national insurance bill, your contractor should have given you a Payment and Deduction Statement (PDS) for each payment you have received. The PDS should show how much you have been paid and how much las been deducted from your payment. If you haven't been given these statements, you should go back to the contractor and ask for them as you will need them to help you prepare your tax return. You are not, however, required to send them in with the return.

You will need to keep bills for any items you claim as business expenditure and separate details of private and business mileage of you use your own car or van for business.

You need to keep all passbooks and statements from bank and building society accounts you use for your business transactions, along with paying-in books and cheque stubs.

You should keep details of:

- any private money paid into bank or building society account that you use for your business
- any amounts you take out of that account, or in cash for your own or you family's personal use

If you make payments to other subcontractors in the construction industry, you need to operate the Construction Industry Scheme on all payments made to those subcontractors. Where you are required to make deductions from any payments to your subcontractors, you should ensure you provide them with Payment Deduction Statements (PDSs).

Manufacturing firm (limited company)

HMRC would expect you to have:

- cash books
- petty cash books
- order notes and invoices
- copy sales invoices
- details of any other business income
- bill/invoices for purchases and expenses
- a record of stock on hand at the end of the year
- details of bank and building society accounts used for business transactions
- details of any private money brought into the business
- details of money taken out of the business bank account or in cash for you own or your family's personal use
- as an employer, records to back up any deduction in your accounts for wages, payments, benefits and such like, relating to your employees (including director(s))
- accounting records (including details of assets, liabilities, income and expenditure)
- details of any assets used for both business and private purposes

If you are VAT registered, you will need to keep additional VAT records.

These are just examples of the types of records it would be sensible for you to keep. They cannot cover every situation. If you are in doubt, ask your accounting professional (if you have one) or contact HMRC for advice.