Personal Taxpayer Series
SA/BK4

Inland Revenue

Self Assessment

A general guide to keeping records

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CGT1	Capital gains tax. An introduction
COP1	Putting things right. How to complain
COP3	Reviews of employers' and contractors' records
CWG2	Employer's further guide to Pay As You Earn and National Insurance contributions
IR14/15(CIS)	Construction Industry Scheme
IR20	Residents and non-residents. Liability to tax in the United Kingdom

SE 1	Thinking of working for yourself?
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Why you should read this booklet

This booklet gives you general advice about what records you need to keep for tax purposes and how long you need to hold on to them so that you can complete a tax return fully and accurately if you are asked to do so. The same records may also be needed if you ever need to make a claim, for example, for tax allowances or tax credits.

If you are carrying on a business (which includes the letting of property) you will need to keep additional records. You should read the whole of this booklet.

Why good record keeping helps

Whatever records you keep, it is sensible to organise and retain them in an orderly fashion. This will help you and your accountant (if you have one) as well as us. If an enquiry is made into your tax return, we may want to examine the records on which it was based. If we do, it will cut down your time and costs if you can show that the records you have kept are complete, accurate, well-organised and were written up promptly.

This booklet will help you to decide whether any records you are keeping at present will satisfy the rules. If, when you have read it, you are still unsure, contact the Tax Office that deals with your affairs or your nearest Inland Revenue Enquiry Centre (addresses are in the telephone directory under 'Inland Revenue') or your accountant or professional adviser (if you have one) for help.

How long must I retain my records?

For businesses that are not limited companies, the basic requirement is that normally records must be retained for five years from the 31 January following the tax year for which the tax return is made. For example, for the 2002 tax return sent to you on 6 April 2002, to complete and send back to us by 31 January 2003, records must be retained until at least 31 January 2008.

For companies, the records for an accounting period will normally have to be retained for six years from the end of that period, so that if the accounting period ends on 31 December 2002 the records must be kept until 31 December 2008.

Individuals not carrying on a business who are required to complete a tax return will normally have to retain their records for at least 22 months from the end of the tax year to which they relate. For example, for the 2002 tax return issued on 6 April 2002, records will have to be kept until at least 31 January 2004. However, see pages 8 and 9 for information about assets that are bought and sold and the records to be kept in these situations.

Please note that in the following three situations the records have to be kept longer.

- If there is any enquiry into the tax return that has not been completed by the date for which records normally have to be retained, the records for that period must be retained by you until that enquiry is completed.

- Where no enquiry has been started, but the statutory period for starting the enquiry has not been reached by the date for which records normally have to be retained (usually because the tax return has been sent back late). In this case the records must be retained by you until the latest date for starting an enquiry has passed or the date such an enquiry is completed, if this is later.

- The date on which you are requested to complete a tax return is after the date to which records normally have to be kept. In that case, the records in existence at the date you are requested to complete the tax return must be retained by you until the latest date for starting an enquiry has passed or, if later, the date such an enquiry is completed.

What happens if I do not keep adequate records?

The rules allow for a specific penalty of up to £3,000 to be charged for each failure to maintain or retain adequate records to back up a tax return.

We will look at each case individually before deciding what penalty, if any, to charge. There is a sliding scale tariff reflecting the degree of seriousness of the failure to comply with the record keeping requirement. In most cases we will give you a warning that this specific penalty will be charged if the failure occurs again. However, in cases of proven deliberate destruction of records we may charge the full penalty without any prior warning.

The penalty will not be charged for any failure to keep records in accordance with these guidance notes that occurred before 6 April 1996.

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

What records should I keep?

You should keep any information and documents that you have received, or have prepared, that will be used to complete entries in your tax return or claim form. Most of these records will be from the tax year or accounting period to which they relate, or soon afterwards.

However, you will sometimes need to refer to records that are already several years old. For example, if you dispose of an asset or something valuable that you have owned for a long time you may need to calculate a capital gain or loss (see pages 8 and 9). At the very least you may need a record of the amount you originally paid for that asset.

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

Of course, 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 future.

What general records will normally be needed?

For most kinds of income, you will only need the records given to you by whoever provided that income (**but see page 11 onwards for more specific details, including income from self-employment, a business or let property**).

If you have doubts about the accuracy of what you have been given, take the matter up with whoever provided the record, but bear in mind that you remain responsible for the accuracy of your tax return or claim.

Some records you may need will be in the form of information.

For example, from

- your employer about your pay (including bonuses) and tax deducted, benefits-in-kind, expenses payments and possibly about share scheme arrangements
- your former employer about a pension you receive
- the Department for Work and Pensions (DWP) about your state pension or other taxable social security benefits
- banks and building societies about the interest on your account(s)
- each company in which you own shares about dividends you receive.

There may be circumstances in which you need to prepare your own records. The precise records to keep will depend on the types of income or gains, tax deductible expenses, personal allowances or other deductions and reliefs you put on your tax return or claim. There are some examples on pages 5-15. (See the contents page for an index of those examples.)

Whatever records you keep, they should be sufficient to enable you to complete your tax return or claim accurately.

What if I keep my records on computer?

You might keep some or all of your records on computer. If you transfer information from paper records into an electronic form, the paper records may be discarded, so long as the method used is capable of capturing all the information needed to demonstrate that a complete and correct tax return has been made. It should also be capable of providing that information in legible form.

However, you must still keep original vouchers showing that tax has been deducted from your income or for tax credits even though you may have microfilmed or imaged them.

If we open an enquiry into your tax return we may ask you to supply the original or backed-up computer records, rather than a paper print-out. We will ask you for details of the type of computer records you hold and any computer package you have used.

Examples of the sorts of records you may need to keep.

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

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

- Your form P60, a certificate your employer will give you after 5 April (the end of the tax year) showing details of pay and tax deducted.
- Any form P45 (Part 1A), a certificate from an employer showing details of pay and tax from a job you have left.
- Any form P160 (Part 1A) you may be given when you retire and go on to a pension paid by your former employer.
- Your payslips or pay statements (you will also need certificates or other proof of any foreign tax you have paid on your employment income).
- A note of the amount of any tips or gratuities and details of any other taxable receipts or benefits not included in forms P60, P45 (Part 1A) or P160 (Part 1A). You should record these as soon as possible after you receive them, and not simply estimate them at the end of the year.
- Forms P11D or P9D 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 (see Appendix 1 on page 16 for claims to expenses against your earnings).
- Information on any share options awarded or exercised or any share participation arrangements (see page 7 for further details).
- 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 P2K (PAYE Coding Notices) as they may help you to keep track of any earlier underpayments of tax that are being collected through PAYE.

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

Your records could include

- details given to you by the Department for Work and Pensions relating to state pensions, taxable state benefits, Statutory Sick Pay, Statutory Maternity 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 P2K (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, 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, an annuity
- any tax deduction certificates supplied by your bank
- dividend vouchers received from UK companies
- other vouchers such as scrip dividend vouchers
- 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 or 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 attaching 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 income or gains you receive
- 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 whatever expenses you claim.

Evidence needed to support capital gains or claims to allowable capital losses

The records you will need to keep will depend on your circumstances, but here are some common 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 sale or acquisition of your assets.

Perhaps you use an asset, such as your home, for both business and private purposes, or you may let 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 may make when you dispose of the asset is taxable.

Capital losses since 1996-7, or 1 July 1999 for companies

If you have a business that is not a limited company you may have suffered capital losses since 1996-97 that you cannot use because you have no capital gains (or in the case of losses on certain unquoted shares, no other income) against which you can set them. You may have entered these losses on your tax return. If not, you will still have five years after the 31 January following the end of the tax year in which the losses arose to tell us about them, so that they can be set off against future capital gains.

Limited companies may have suffered **capital losses** in accounting periods ending on or after 1 July 1999 that could not be used. If so, the company has six years from the end of the accounting period in which the losses arose to tell us about them, so that they can be set against future capital gains of the company.

As your notification will be made either on your tax return or by a separate claim, the rules for how long you will need to retain the records for those losses are the rules outlined on pages 1 and 2 under the heading 'How long must I retain my records?'. This means that the period for retaining those records may actually end before a capital gain arises against which you can set off those losses. This will not affect your right to set off your losses against future capital gains and there can be no question of any penalty arising if you no longer have the records relating to those losses. The only record you will need to support such a set-off will be evidence that you notified the existence and amount of those losses to us within five years after the 31 January following the tax year in which the loss was suffered. For limited companies the evidence will be that you told us about the losses within six years of the end of the accounting period. If there was an enquiry, you need to keep evidence of the amount of the allowable losses that was finally agreed.

Capital losses arising in 1995-96 and earlier years, or before 1 July 1999 for limited companies

For businesses that are not limited companies, you do not have to tell us about losses suffered in 1995-96 and earlier years until you use them. For limited companies' losses suffered in accounting periods ending before 1 July 1999, you do not have to tell us 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, as explained on page 1.

If you need more information on the subject of capital gains and losses, please contact any Inland Revenue office or Enquiry Centre. You might like to request a copy of our booklet CGT1 'Capital gains tax. An introduction'.

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.

- 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 6 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 any claim where age is a factor
- a marriage certificate where married couple's allowance is being claimed (available only to taxpayers born before 6 April 1935)
- a certificate of your husband's death if you are claiming bereavement allowance
- notification that you are registered as a blind person.

• 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 to support such claims are

  - bank statements and cheque stubs
  - money order counterfoils
  - certificates of 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 or non-domicile. Our leaflet IR20 'Residents and non-residents. Liability to tax in the United Kingdom' explains what is meant by non-residence and non-domicile.

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 United Kingdom
  - 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 in business (including the letting of property) where a business can be a sole trader, a partnership, a limited company or an unincorporated association.

What does keeping business (or let property) records mean?

Keeping records for business or let property means three things.

- **Setting up** a system for keeping records in the first place.
- **Maintaining** them regularly/frequently throughout the year.
- **Retaining** them for as long as necessary (approx. six years, but see section 'How long must I retain my records' on page 1).

What do the rules say?

They say that, for business taxpayers, 'the records required to be kept and preserved shall include records of

- all amounts received and expended in the course of the trade, profession or business and the matters in respect of which the receipts and expenditure take place, and
- in the case of a trade involving dealing in goods, all sales and purchases of goods made in the course of the trade.'

The precise records you need to keep to meet these requirements will depend on the type and size of your business. It is up to you to ensure that the statement of business income and expenditure in your tax return is accurate. Whatever form of records you maintain, it must be adequate to enable you to do this.

There are some examples of the actual records recommended for particular types of business in Appendix 2 on page 19. They cannot of course cover every type of business, or different circumstances within the same type of business. So your own business is unlikely to fit exactly any of the examples given. If you are in any doubt about what records you should keep, ask your accountant or professional adviser (if you have one) or contact your Tax Office for advice.

We will normally expect you to

- record all sales and other business receipts as they come in, and retain the records
- keep back-up 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 retain, 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.

Whatever records you keep, you will need to make sure that you can separate your business from your personal expenses.

Specific examples

Bank and Building Society accounts

You need to retain all bank and building society statements and pass books 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, or the proceeds from, for instance, a life assurance policy).

Stock and work in progress

At the end of your accounting year you should carry out a stocktaking exercise to identify the costs of your stock and/or work in progress, record the costs, and retain the record.

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.

We will also carry out inspections of employers' PAYE records. You can get more advice on records and inspections in CWG2 'Employer's further guide to Pay As You Earn and National Insurance contributions' and COP3 'Reviews of employers' and contractors' 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. Our booklet IR14/15(CIS) 'Construction Industry Scheme' gives more details about this. Appendix 2 on page 19 also includes information specific to subcontractors.

Record books

The most suitable types of books you should use to summarise all your business transactions will depend on the nature and size of your 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 record 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 accountant, if you have one, can advise you on what extra books you should keep. If you do not have an accountant, you can ask your Tax Office for advice.

After the end of the year you or your accountant 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.

Common points of difficulty

Sales

Sales include

- goods taken from stock for your own or your family's consumption and 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.

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.

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 include a flat. If so, you will again need to keep sufficient records to work out what expenditure relates to business use and what to private use.

Remember that whatever your business, you need to keep adequate records to back up your tax return.

Appendix 1

Claims 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 could include

- mileage details (for example, a log showing dates, trips made and business miles travelled) and details of any additional costs you incurred, for example, 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.

You can find additional guidance about the sorts of records you may need to keep for claiming expenses in booklet 480 'Expenses and Benefits. A tax guide'.

What if I do not get, or cannot keep, evidence of my 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 and what it was for.

If you do 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 will need to have kept the broad details of these expenses in order to complete your expenses claim and to support your claim if the Tax Office should make an enquiry. You will not be expected to keep photocopies of bills (although you may find it helpful to do so). Normally any enquiries will be satisfied by the production of your own records. However, if you need to retrieve any original records from your employer and have difficulty in doing so, you can ask your Tax Office to approach your employer on your behalf.

If you use your own vehicle for business travel

Since 6 April 2002 there have been new arrangements when you use your own vehicle (car, van, motor cycle or cycle) for business travel.

From that date

- 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 Tax Office about this)
- if you are paid less than the specified rates, or nothing at all, you can claim relief (called Mileage Allowance Relief) on the shortfall.

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 (for instance, parking or tolls). You will need them in order to claim for a deduction for those expenses.

Relief is no longer available in tax year 2002-2003 and later years for the cost of buying a vehicle, nor for the business portion of any interest paid on a hire purchase agreement or a loan used to buy your vehicle.

For more information about the tax-free rates, ask any Inland Revenue office or Inland Revenue Enquiry Office

If you use your own home for business

For example, 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 you claim other expenses

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

Appendix 2

Examples of records recommended for different types of business

Retail shop

You should keep

- till rolls or other form 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 your 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
- bills/invoices for purchases and expenses
- a record of stock on hand at the end of the year
- all bank and building society statements, pass books, cheque stubs and paying-in slips which include details of business transactions
- cash book
- details of any private money brought into the business
- details of any money taken out of the business bank account or in cash for your own or your family's personal use
- details of any assets used for both business and private purposes.

If you also have employees please refer to the section headed 'Payments to employees' on page 13.

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.

As a subcontractor you will have applied for a registration card (CIS4) or a certificate (CIS6) or you or one of your partners will have applied for a partnership certificate (CIS5P).

If you hold a CIS6 and you have had payments under the scheme then you should have details of those payments made to you by contractors on your copies of the CIS24 vouchers. You do not need to submit those CIS24s with the tax return.

If you held a CIS4 for any part of the tax year and you have had payments made under the scheme then your contractor should have sent you a CIS25 showing the payments (and deductions on account of tax) that he or she has made. You will need your completed CIS25s to attach to the tax return. This is important because this shows us that your contractor deducted amounts on account of your income tax and Class 4 National Insurance contributions. You will also need your vouchers if you ask for a provisional repayment of any excess deductions before you file your tax return.

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

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

You should also keep details of

- any private money paid into any 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 your family's personal use.

If you make payments to other subcontractors in the construction industry, you need to operate the Construction Industry Scheme on those subcontractors and ensure you provide them with their CIS25s and, if appropriate, receive from them their CIS24s. The scheme is explained in Inland Revenue booklet IR14/15(CIS) 'Construction Industry Scheme'.

If you or one of your partners have been issued with a CIS5P in connection with the partnership in which you are a partner you will need to keep all the same information as for CIS6 holder, but you will not need to issue CIS24 vouchers to your contractor. If you or one of your partners have a CIS5P then the contractor completes vouchers and sends them to us, but does not send you a copy. However, you will need to keep information about the payments you receive just the same.

Manufacturing firm

We would expect you to have

- cash book

- petty cash book

- order notes and invoices

- copy sales invoices

- details of any other business income received

- bills/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 your own or your family's personal use
- details of any assets used for both business and private purposes.

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 any doubt, ask your accountant or professional adviser or Tax Office for advice.

These notes are for guidance only and reflect the position at the time of writing.
They do not affect your right of appeal.

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