
Features:

November 15, 2002

Electronic archiving: Maintaining computer tax records-new and old

Electronic interaction with tax officials continues to become more and more common. But beyond filing returns electronically, taxpayers often convert paper tax records to electronic form for storage. Many invoices and documents are computerized from the start. But certain pitfalls may present themselves in the creation of an electronic trail to stand up to auditors several years from today's hurried business transactions.

The two largest areas of concern in electronic archiving appear when instituting a computer system change or when acquiring another company-and its tax history, says **Katherine Gauntt**, tax manager with National Linen in Atlanta.

When a company undergoes the transformation to a new system, whether it involves different hardware or software, that company may later be subject to an audit that covers transactions that occurred on both the new system and the old one. Make sure you convert data from the old system so that it can be accessed with the new method. And convert data through the longest statutory period for which you are liable.

Details

"Remember to bring in historical detail rather than just historical balances," says **Diane Yetter**, of Yetter Consulting Services Inc., in Chicago. You must preserve back-up documents necessary to prove returns under scrutiny in an audit. Convert data where possible or run the necessary reports before the old system is killed. Better yet, get an electronic file that can be read by your new system. Often, text files are accessible by any type of reader.

"The main thing with electronic records when you are acquiring a company or changing the system-it is imperative that there is compatibility with the old system to reproduce the documents or you have a contingency plan for reproducing data by other means," Gauntt says. "If you can't read them, you may as well not even have the records." Maintain a historical audit trail, she says. Either keep a "box," an old piece of hardware to bring up the records, or convert historical data to the new software. But make sure that *all* the necessary information is saved or converted-that means whatever documentation necessary to back up claims made on sales tax returns.

Shifting data parameters

Over the years, as software is upgraded or changed, it becomes less likely that you can create an exact copy of a document originally produced in prior years. Often the parameters of the data change.

Will subsequent queries keep the information separate or combine them? What if a customer is entered as tax exempt and a month later is discovered to be nonexempt? Will a later query pull the customer up as nonexempt?

Pay attention to credit adjustments, also. For instance, a purchase is made one month, and a credit is

received for a partial return the next month. You must be able to tie that to the various financial records.

Gauntt keeps all monthly records on CD-ROM so questions farther down the road may be answered accurately.

Indexing

Besides merely keeping those electronic records, one must be able to find them. Accurate indexing of historical data is paramount, Gauntt says. Take care to ensure that a query takes you to the appropriate invoice. Often, problems occur where fields in electronic data have been changed.

Taxpayers filing electronically should remember to keep an electronic copy of the return *and* the back-up documents and receipts supporting things like gross sales and purchases.

"You have to show the auditor where the numbers came from or have some way to regenerate the source," Yetter says.

Maintaining

Now that many tax records and documents are obtained and maintained electronically, remember that these cyber copies are only good as long as they are in your computer. Take for instance electronic exemption certificates, Yetter says. Make sure when you get a replacement certificate that you don't trash the old one. In some states like Florida, where certificates expire, your current certificate may not cover the entire period under audit.

This could bring into question whether those past transactions really were exempt. Yetter recalls instances where taxpayers had deleted electronic certificates or tossed paper copies. Usually, the state can verify if the customer was registered before the date of the new certificate.

"But that can always be a problem depending if you have a touchy relationship with the auditor," Yetter notes.

Swamped with sales invoices

Another huge concern to many taxpayers involves the overwhelming number of sales invoices generated. Today, sales invoices are mostly computerized and printed as needed. However, your server may only be able to hold one month's worth of invoices or perhaps six months' worth. Perhaps from there, invoices are stored on tape. Give thought to your archiving policy. It may be difficult to reload these tapes, but don't destroy them. Rather, keep the tapes for the appropriate look-back period for audits. And maintain multiple copies.

"It's so easy for that data tape to get damaged," Yetter says.

Get a copy of the Federation of Tax Administrators' "Model Recordkeeping and Retention Regulation." It's available at www.taxadmin.org/fta/modelreg.pdf. Though somewhat dated, it spells out the FTA-recommended regulation on electronic data interchange already adopted by some states. States that have not adopted the model regulation might argue that you have to present paper documents, Yetter warns.

Editor's note: *Gauntt can be reached at (404) 853-6026; Yetter at (312) 986-1086.*

ELECTRONIC ARCHIVING TIPS

- Convert data from the old system so it can be accessed by the new system. An audit may cover information spanning the use of both old and new systems.
- Save data through the longest statutory period for which you are liable.
- Preserve historical detail rather than just historical balances. Keep the documents that will allow you in an audit to back up the claims made on returns.
- Create an accurate indexing system to ensure you can find what you have stored electronically.
- Keep all monthly records on CD-ROM lest information from documents become combined over time as the parameters of the data shift.
- Keep several copies of the magnetic tape holding sales invoices transferred from the server. They are easily damaged.
- Review the Federation of Tax Administrators' "Model Recordkeeping and Retention Regulation." Some states may still demand paper documents in an audit.

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