

Financial records – why keep them?

AMVETS National Ladies Auxiliary and their Local Auxiliaries are granted tax-exempt status under the parent organization AMVETS' group number as a 501(c)(19) – an organization that benefits veterans of the United States Armed Forces . Tax-exempt organizations need to keep certain records beyond current needs, according to legal, financial and local Auxiliary requirements. Whether a record is in paper or electronic format, the information is still crucial to the organization's record keeping.

An organization must maintain books and records to show that it complies with tax rules. The organization must be able to document the sources of receipts and expenditures reported on their tax return. If an organization does not keep the required records, it may not be able to show that it qualifies for tax-exempt status and may lose that status. In addition, a tax-exempt organization may not be able to complete its returns accurately and may be subject to penalties. When good recordkeeping systems are in place, an organization can evaluate the success of its programs, monitor its budget, and prepare its financial statements and returns.

Records must support income, expenses, and credits reported on Form 990 tax returns. A recordkeeping system should include a summary of transactions, written in the organization's books. The books must show gross receipts, expenses, and assets. For most small organizations like our local Auxiliaries, the checkbook might be the main source for entries. Books and records of tax-exempt organizations must be available for inspection by the IRS, to explain items reported.

Organization transactions, such as bank deposits, purchases, scholarships granted, bills paid and income received, will generate supporting documents. These documents—email communications, paid invoices, receipts, deposit slips, and canceled checks—must be kept by the Auxiliary because they support the entries in the organization's accounting books and the entries on tax returns. These documents should be kept with the appropriate year's tax return.

A tax-exempt organization can use records to evaluate the success of its programs and determine whether it is achieving desired results. Good records can also help an organization to identify problem areas and to determine what changes it may need to make to improve performance, all while maintaining its tax-exempt status with the IRS.

Next month – How long should records be kept?

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