

How to Protect Tax Records

Suppose an individual's tax records are destroyed by a natural disaster like the fierce tornadoes that swept through the South this spring. Although a taxpayer is permitted to "reconstruct" records in a pinch, it is far better to store valuable tax documents and related materials in a secure, fire-resistant box. At the very least, maintain copies of the most important documents away from home or the office.

The IRS has issued some recordkeeping tips in the event of natural disasters such as hurricanes, fires and floods. Here are the key points to remember:

- *Taxpayers are encouraged to use e-mail to receive bank statements and other documents. Keep records in electronic format by scanning the ones that are not readily available electronically and saving them onto another drive, a CD or a DVD.

- *Taxpayers should maintain an inventory of their valuables. Update the inventory periodically.

- *The IRS recommends that employers using payroll service providers consider fiduciary bonds for protection in case the provider defaults.

- *The IRS suggests that employers update their emergency plans on an annual basis. Individual taxpayers should keep track of important documents, such as W-2s.

In this case, an ounce of prevention is worth a pound of cure. Coordinate recordkeeping activities, both electronic and paper, with a tax professional. Tax transcripts are readily available from the IRS.