TR 96/7 - Income tax: record keeping - section 262A - general principles

Taxation Ruling
Income tax: record keeping – section 262A – general principles

contents para

This Ruling, to the extent that it is capable of being a ‘public ruling’ in terms of Part IVAAA of the ***Taxation Administration Act 1953****, is a public ruling for the purposes of that Part. Taxation Ruling TR 92/1 explains when a Ruling is a public ruling and how it is binding on the Commissioner.*

*[**Note:** This is a consolidated version of this document. Refer to the ATO Legal Database (http://law.ato.gov.au) to check its currency and to view the details of all changes.]*

What this Ruling is about

1. Section 262A of the *Income Tax Assessment Act 1936* (‘the Act’) requires a person carrying on a business to keep records that record and explain all transactions and other acts engaged in by the person that are relevant for any purpose of the Act. The records to be kept include any documents which are relevant for the purpose of ascertaining the person’s income and expenditure and any documents that contain particulars of any elections, estimates, etc., made by the person under the Act.

2. A person must keep the records in such a manner as to enable the person’s liability under the Act to be readily ascertained. Generally, a person must keep the records for 5 years after the person prepared or obtained them, or 5 years after the completion of the transaction or acts to which they relate (whichever is the later).

Class of person/arrangement

3. This Ruling explains the general application of section 262A to a person, including a company, carrying on a business. The Ruling sets out our views on what are sufficient records to record and explain all transactions and other acts engaged in by such persons for the purposes of the Act. A reference to ‘transactions’ in this Ruling is to be read as also referring to ‘other acts engaged in’ by a person.

4. Although section 262A applies for any purpose of the Act, this Ruling considers the section as it relates to the income and expenditure of a person carrying on a business.

5. This Ruling does not consider section 262A as it relates to Division 13 of Part III of the Act. We have dealt with this issue in Taxation Ruling TR 94/14.

6. This Ruling does not deal with specific business record keeping provisions, e.g., Division 11 of Part X of the Act (keeping records about the operation of the Controlled Foreign Companies provisions), and Schedule 2A and Divisions 3 and 4 of Schedule 2B to the Act (the provisions relating to calculating car expense deductions and substantiating car expenses and business travel expenses).

7. This Ruling is the first in a series of Rulings and Determinations on record keeping. We may follow it with more specific Rulings or Determinations as we identify needs. These may deal with specific industries or record keeping issues.

8. The Australian Taxation Office ('ATO') has released a publication called '*A Guide to Keeping Your Business Records*'. This guide provides further information to persons carrying on a small business on how to use a simple accounting system and how to prepare, file and store the records created by this system.

Ruling

Record and explain all transactions

9. Subsection 262A(1) imposes the primary obligation on persons carrying on a business to keep records that record and explain all transactions engaged in by them that are relevant for any purpose of the Act. We consider that a record will 'explain' transactions engaged in by a person if it contains information which will enable ATO staff with accounting skills to understand the essential features of the transactions.

10. Subsection 262A(2) makes it clear that the records to be kept under subsection (1) include documents that are relevant for the purpose of ascertaining a person's income and expenditure. The content of the information needed in a record will depend on the circumstances of each case. Our view, generally, is that the minimum information required by ATO staff with accounting skills to understand the essential features of transactions which relate to the person's income and expenditure is the date, amount and character (e.g., sale, purchase, wages, rental, etc.) of the transactions. In some circumstances, an officer also will need other information about the essential features of transactions, e.g., the purpose of transactions and the relationships between parties to transactions, to understand the relevance of the transactions to the person's income and expenditure.

11. The records that a person must keep under subsection 262A(1) must record every transaction that relates to the person's income and expenditure. However, we consider that to explain the essential features of every transaction, a person does not necessarily have to make a record of each individual transaction. Some records are capable of explaining the essential features of transactions when considered as a group rather than when considered individually. We believe that this is the case where any records of the individual transactions provide no additional information about the essential features of the transactions than does a record of the transactions as a group. The following examples show how we believe this principle applies.

Cash registers

12. In the retail industry, many businesses engage in high volume/low value sales transactions. Those businesses often use a cash register to record the transactions. Where a business uses a cash register, the rolls of tape produced by the cash register record the individual transactions put through the register. We consider that the rolls of tape provide no additional information about the essential features of the transactions than do the 'Z-totals' produced by the register.

13. Therefore, we accept that a person may discard the rolls of tape after one month provided that the person has reconciled the 'Z-totals' with actual cash sales and bankings for that period. The reconciliation must take into consideration any cash earned that the person used for other purposes, e.g., personal drawings, minor purchases, etc. The person must keep the reconciliation for the statutory period (5 years). We consider that it is necessary for the person to keep the one month representative sample so that ATO staff can verify that the 'Z-totals' are an accurate summary of every individual transaction that relates to the person's income and expenditure. The representative sample of the rolls of tape enables ATO staff to analyse more accurately whether a person has reconciled the bankings with the 'Z-totals'. If a person does not do a reconciliation, the person must keep the rolls of tape for the statutory period (5 years). (See Example 1 in this Ruling).

Receipt books

14. We believe that this general principle applies similarly to those businesses which, due to their nature, do not use a cash register. It is often the case that a person carrying on such a business individually records cash sales as they occur, e.g., in a numbered receipt book. We consider that those individual records provide no additional information about the essential features of the sales transactions than does a summary recording of all of the transactions for a particular period.

15. Therefore, we accept that a person may discard the individual records after one month provided that the person has reconciled the summary records with the individual records and the bankings for that period. The reconciliation must take into account any cash earned that the person used for other purposes, e.g., personal drawings, minor purchases. The person must keep the reconciliations for the statutory period (5 years). As with cash sales put through a cash register, we consider that it is necessary for the person to keep the one month representative sample so that ATO staff can verify that the summary record is an accurate summary of every individual transaction that relates to a person's income and expenditure. As with 'Z-totals', the representative sample enables ATO staff to analyse more accurately whether a person has reconciled the bankings with the summary records. If a person does not do a reconciliation, the person must keep the individual records for the statutory period (5 years). (See Example 2 in this Ruling).

No source records

16. There are situations where it is clearly impractical for a person to record every individual cash transaction. This may occur where the recording of each individual transaction would seriously impair the normal conduct of the business, e.g., where a person carries on a business that deals in high volume/low value cash transactions and does not operate from a permanently fixed location. In those cases, we will accept that the keeping of summary records of the cash transactions will satisfy the person's obligations under subsection 262A(1), as long as the person can reconcile the summary records with the bankings. The person must make these summary records at regularly defined intervals, e.g., at the end of each day or shift. The reconciliation must take into consideration any cash earned that the person used for other purposes and should show at least the following details: total cash at day end + drawings + expenses – opening float. (See Example 3 in this Ruling).

Credit cards

17. Where a person accepts payment by credit card for goods or services supplied to a customer, it is usual for a financial institution to provide the person with a summary statement of any credit transactions for a particular period. That statement records the dates when the person presents the sales transactions information to the institution for that period. Generally, we consider that the individual sales vouchers provide no additional information about the essential features of the credit transactions than do the summary statements kept by the person. However, this is not so where a person makes a credit card sale in one year of income and presents the voucher to the institution in the next year of income. We consider that the person must keep such sales vouchers until the person reconciles them with the next summary statement. Once the person records which items on that statement refer to sales made in the previous year, we accept that the person can discard the individual sales vouchers. (See Example 2 in this Ruling).

'Keep'

18. We consider that the word, 'keep', in subsection 262A(1), means both 'make' and 'retain'. So, where a record is created in the normal course of engaging in transactions, the person carrying on the business must retain that record. In addition, where no record is created in the normal course of activities (see Example 3 in this Ruling), we consider that the person must make a record of the transactions (which could be a summary of transactions as described in paragraph 11 of this Ruling) and then retain it.

19. Where subsection 262A(1) requires a person to make a record, we consider that this would normally require the person to make a contemporaneous record of the transactions, i.e., a record of the transactions as they occur or, if that is not possible, as soon as practical after the transactions have occurred. What is practicable will depend on the facts of the case, including the nature of the transactions.

20. However, we recognise that, for a record which records transactions as a group, it may not always be practicable for the record to be contemporaneous. In that situation, we would accept that the making of the record is determined by the operation of the criteria referred to in paragraphs 12 to 17 of this Ruling.

21. There may also be cases where a person who has made a contemporaneous record may not wish to retain the document in its original form. This may be the case where a person must retain large numbers of documents and wishes to retain them in a more convenient form, e.g., microfilm, microfiche or CD ROM. We accept this, provided that the substitute contains the same information about the essential features of the transactions as we would obtain from the contemporaneous records.

22. We consider that these alternative methods of record retention contain the same information about the essential features of the relevant transactions where the conversion process, including the scanning of documents onto CD ROM, produces a true and clear reproduction of the original document. The person must provide appropriate facilities for the preservation of the records for the statutory period (5 years).

Manner of keeping records

23. Paragraph 262A(3)(a) provides that a person must keep records in writing or so as to enable the records to be readily accessible and convertible into writing. We consider that a record made and retained in an electronic form, e.g., magnetic tape, computer disc, etc., is in a form which is readily accessible and convertible into writing.

24. Where section 262A requires a person to keep records, paragraph 262A(3)(b) requires that the records be kept in a manner that allows the person's liability under the Act to be readily ascertained. We consider that the person's liability is readily ascertainable if ATO staff with accounting skills can determine the person's liability quickly and easily with minimal assistance from that person. Where staff cannot readily ascertain a person's liability from the records referred to in paragraphs 19 and 20 above, we believe that the person needs to make secondary records which enable transactions to be traced and verified through the accounting system of the business from the source of the transactions to the financial accounts. These secondary records, e.g., journals, ledgers and financial accounts, summarise the records that explain the transactions.

25. Therefore, to enable ATO staff to determine a person's liability quickly and easily, we consider that the person has an ongoing obligation for the term of the statutory period (5 years) to keep:

(i) records which record and explain all transactions (see paragraphs 9 to 17 in this Ruling); and

(ii) those secondary records that are usual and proper to keep in the business carried on by that person. This includes documents that readily explain the person's financial position on a regular basis throughout the year, e.g., journals, ledgers, etc.

Date of effect

26. This Ruling applies to years commencing both before and after its date of issue.

Explanations

Purpose of section 262A

27. Section 262A is a procedural provision introduced into the Act by the *Income Tax Assessment Act 1943*. When enacted, it stated that:

> '...every person carrying on a business shall keep sufficient records in the English language of his income and expenditure to enable his assessable income and allowable deductions to be readily ascertained and shall retain such records for a period of at least seven years after the completion of the transactions, acts or operations to which they relate...'

28. The original purpose of section 262A was to assist the Commissioner in checking the correctness of income tax returns furnished by business taxpayers. This is apparent from the second reading speech of the then Treasurer, Mr Chifley, in introducing the Income Tax Assessment Bill 1943. In particular, he stated that the task of the Commissioner in discovering the true income of a taxpayer is exceedingly difficult where the taxpayer has not preserved his books and records.

29. Several amendments were made to the original section 262A until the *Taxation Laws Amendment Act (No. 5) 1989* introduced the existing section 262A. Clause 42 of the Explanatory Memorandum relating to the Bill makes it clear that the original requirements of section 262A were to be retained subject only to some modifications mainly necessary as a result of the introduction of self-assessment, e.g., the period for keeping records was reduced from 7 to 5 years. In particular, the clause states that:

> 'the purpose of subsection 262A(2) is to make it clear that all records of a type previously included in a return form but no longer required to be included under self-assessment, are to be retained by the taxpayer for the purposes of examination by the Commissioner if and when requested by the Commissioner for the purposes of the Act.'

Record and explain all transactions

30. We consider the word 'explain', in subsection 262A(1), means 'to enable someone to understand'. As the purpose of section 262A is to assist the Commissioner in checking the correctness of business income tax returns, we believe that it is reasonable to conclude that a record can 'explain' all relevant transactions engaged in by a person if it contains information which enables ATO staff with accounting skills to understand how the transactions relate to the calculation of the person's income and expenditure, i.e., it contains information about the essential features of the transactions.

31. The range of transactions which a person carrying on a business could enter into, and which could relate to the calculation of the person's income and expenditure, is potentially unlimited. This means that the content of the information needed in a record which would enable ATO staff to understand that relevance is also potentially unlimited. The content always depends on the circumstances of each case. However, we believe that information about the date, amount and character of transactions is the minimum which is needed. This is because:

(i) the date enables us to determine the year of income to which the transactions relate;

(ii) the amount enables us to determine how the transactions affect the amount of the person's liability under the Act; and

(iii) the character enables us to determine whether a person has a liability under the Act, e.g., whether a transaction is allowable expenditure (purchases, wages, rental, etc.,) or not; and whether a transaction is assessable income or not.

32. We also recognise that there are situations where we need other information about the essential features of transactions to understand their relevance to the calculation of a person's income and expenditure. For instance, to determine whether particular expenditure is deductible under subsection 51(1) of the Act, we might need to know about the purpose for the entering into of the transactions which gave rise to that expenditure. Additionally, we might need to understand the relationship between parties to transactions to determine whether they are 'associates' or dealing at 'arm's length', for the purposes of the many uses of those terms in the Act.

33. We believe that the phrase ‘all transactions’, in subsection 262A(1), means ‘the whole number of every transaction’. This means that a person carrying on a business must keep records of every transaction that relates to the person’s income and expenditure. However, there are two views of the requirement that those records must record and explain ‘all transactions’. One view is that to record and explain ‘all transactions’, a person must record and explain each transaction individually. The alternative view is that, in some circumstances, a person can record and explain ‘all transactions’ by recording and explaining groups of transactions.

34. There are many businesses, particularly in the retail industry, that engage in high volume/low value sales transactions. In that situation, we consider that we only need to know, generally, the date, amount and character of the transactions to understand the relevance of the transactions to the calculation of the income and expenditure of the persons carrying on those businesses. We believe that it is possible for a record prepared according to either view equally to provide that minimum information about the essential features of the transactions.

35. However, we recognise that there can be substantially higher compliance costs associated with a requirement to keep records which explain all transactions individually than with a requirement to keep records which record and explain all transactions as a group. Also, we recognise that it is important to maintain a balance between effective taxation administration and the conduct of business free from the imposition of unnecessary compliance costs. The adoption of either view of the requirement equally promotes the purpose of section 262A. We adopt the latter view because it results in lower compliance costs. Therefore, we accept that a person does not have to keep a record of each transaction individually where any such records provide no additional information about the essential features of the transactions than does a record of the transactions as a group.

Cash registers

36. One example of the application of our view involves businesses that use a cash register to record sales transactions. The rolls of tape produced by the register record the date and amount of the individual transactions put through the register and it is possible to identify from them the sales character of the transactions. At the end of a particular business period, usually a day, the person carrying on the business makes sure that the register produces a 'Z-total', i.e., a numerical summary of the total value of the sales transactions put through the register during that period. It is often the case that the keeping of the records of the 'Z-totals' is less costly than the keeping of the rolls of tape. We consider that both the rolls of tape and the records of the 'Z-totals' equally provide information about the essential features of the sales transactions and that the keeping of either set of records would satisfy a person's obligations under subsection 262A(1).

37. Where a cash register is used properly, the rolls of tape and the 'Z-totals' produced by the register accurately record the cash sales put through the register. However, the sales put through the register may not always represent all of the sales made by the business. In that situation, the 'Z-totals' will not be an accurate record of all of the cash sales that relate to a person's income. As it is important for the effective administration of the Act that any records kept under subsection 262A(1) record all of the relevant transactions, we consider that it is necessary for us to be able to verify that the 'Z-totals' are an accurate summary of the sales actually made by the business.

38. Usually, cash from the sales made by a business is banked. Experience suggests to us that an examination of the rolls of tape produced by a cash register helps us to analyse more accurately whether the cash deposits can be reconciled with the 'Z-totals' than when we only reconcile the deposits with the 'Z-totals'. This is because the individual records on the rolls of tape help us to identify non-sales transactions, such as personal drawings or minor purchases. However, as in paragraph 35 above, we recognise that it is important to maintain a balance between effective taxation administration and the conduct of business free from the imposition of unnecessary compliance costs. As the keeping of the rolls of tape is often a costly exercise for a business, we believe that an appropriate balance is achieved if businesses keep the rolls of tape for one month after they reconcile their 'Z-totals' with actual cash sales. This provides us with a sufficient sample against which to test the accuracy of the 'Z-totals'.

Receipt books

39. We believe that the discussion in paragraphs 36 to 38 above is also applicable to those businesses which, due to their nature, do not

use a cash register. Businesses in that situation often individually record cash sales as they occur, e.g., in a numbered receipt book. The receipt book records the date and amount of the individual sales and it is clear that the transactions recorded are of a sales character. A person may make a summary record of the information contained in the receipt book. It is often the case that the keeping of the summary record is less costly than the keeping of the receipt books. We consider that both the receipt book and the summary record equally provide information about the essential features of the sales transactions and that the keeping of either set of records would satisfy a person's obligations under subsection 262A(1).

40. However, as with cash sales put through a cash register, sales recorded in a summary record may not always represent all of the sales made by a business. For the reasons discussed in paragraph 37 above, we consider that it is necessary for us to be able to verify that the summary records are an accurate summary of the sales actually made by the business. For similar reasons to those discussed in paragraph 38, experience also suggests to us that an examination of the receipt books enables us to analyse more accurately whether the business' bankings can be reconciled with the summary records. As with businesses operating cash registers, we believe that the retention of receipt books, for one month after a business reconciles its summary records with actual cash sales, provides us with a sufficient sample against which to test the accuracy of the summary records.

No source records

41. We also recognise that it is clearly impractical for some persons carrying on a business to record every individual cash transaction, particularly where the business deals with high volume/low value transactions and does not have a permanently fixed location from which to operate. However, we believe that it is practical for those persons to make accurate summaries of their cash sales at regular, definable periods, e.g., at the end of a day. In these cases, we accept that regularly produced summary records will satisfy the obligation under subsection 262A(1), as long as the person can reconcile the records with the cash which is actually banked.

Credit cards

42. A credit card sales transaction involves contracts between a customer who is purchasing goods or services, a merchant who is selling the goods or services and a credit card provider, who is usually a financial institution. The merchant is involved in two contracts. In the first, the merchant sells goods or services to the customer and agrees to accept the customer's signature on a credit card voucher in payment of the customer's debt for the goods or services. In the second contract, the merchant agrees with the financial institution to provide goods or services to any customer who presents the institution's credit card for payment, in exchange for the institution agreeing to pay to the merchant the price of the goods or services provided. It is clear from these contracts that the merchant has an enforceable debt against the institution once the merchant has completed the sales transaction with the customer. This debt is extinguished when the institution pays the amount of the debt to the merchant, usually by way of crediting an account that the merchant has with the institution.

43. The contract with the financial institution usually requires the merchant to present all sales transaction information and vouchers to the institution within a short period of time after the transactions. It is usual for the institution to send the merchant a regular statement summarising any credit card transactions for a particular period. The summary statement records the dates when the merchant presented the sales transaction information to the institution and the amount of all of the transactions. It is also usual practice between the merchant and the institution that the merchant keeps a copy of all credit card vouchers for a certain period and then destroys them.

44. Generally, we accept that both the credit card vouchers and the summary statement from the institution equally provide information about the essential features of the sales transactions entered into by a business and that the keeping of either set of records would satisfy a person's obligations under section 262A(1).

45. However, we recognise that there are some credit card sales which occur near the end of a year of income which the financial institution will record on summary statements in the following year of income. This is because the merchant does not provide the necessary information to the institution until then. In that situation, the summary statement in the current year of income does not provide an accurate picture of all of the sales of the business for that year. In maintaining the appropriate balance discussed in paragraph 35 above, we believe that a person should keep the individual sales vouchers which record sales made in the current year of income, but which the person presents to the institution in the next year of income, until the person reconciles them with the next summary statement. Once the person records which of the notations appearing on the next summary statement refers to credit sales made in the previous year of income, we would accept that the person then no longer needs to keep the individual sales vouchers.

'Keep'

46. There are two possible views of the obligation in subsection 262A(1) to keep records. The first view is that the obligation only covers those records which a person would normally create in the carrying on of a business. This view assumes that the word 'keep' means simply 'retain'. The second view is that the obligation covers any records which record transactions that are relevant for the purpose of ascertaining a person's income and expenditure, whether they are normally created in the person's business or not. This view assumes that the word 'keep' means both 'make' and 'retain'.

47. We believe that the *Macquarie Dictionary* supports the second view. It defines 'keep' as:

> 'to maintain in condition or order, as by care or labour; to record (business transactions, etc.,) regularly: **to keep records**.'

Also, we prefer the second view because it is supported by the purpose of section 262A. If we relied on the first view, and a person carrying on a business would not normally create records of certain business transactions, then there is a risk that the records kept would not record all transactions that are relevant to ascertaining the person's income and expenditure.

48. The case of *Re Aarons; ex parte the Bankrupt* (1977-78) 19 ALR 633 further supports our view that the word 'keep' means 'make and retain'. The *Bankruptcy Act 1966* provides in subsection 150(6) that the Court may exercise its powers under subsection 150(5) where a bankrupt has 'omitted to keep and preserve such books, accounts or records as sufficiently disclose his business transactions and financial position...' It also provides in subsection 270(1) that a bankrupt who 'has not kept such books as are usual and proper in any business carried on by him...' is guilty of an offence. In considering whether a bankrupt had failed to keep proper books under these subsections, Riley J said at 636 that:

> 'Each provision refers both to the keeping and to the preserving of books, accounts and records. Two of the meanings ascribed by the *Concise Oxford Dictionary*, 6th ed, to the verb 'to keep' are (a) 'maintain (diary, accounts, books) by making requisite entries' and (b) 'retain possession of, not lose or destroy'. It is clear that it is in the former sense that the verb is used in both s150(6)(a) and s270(1).'

49. Where our view requires a person to make records, we consider that the obligation, normally, is to make contemporaneous records of all transactions. This is because contemporaneous records are more likely to accurately record the essential features of the transactions. They are also more likely to record all transactions entered into by the person.

50. The *Macquarie Dictionary* defines 'contemporaneous' as:

> 'existing or occurring at the same time'.

However, we consider that, in the context of section 262A, a record will be contemporaneous if it is made as soon as practicable after the person enters into the transaction. This is because some businesses do not have a system which enables them to record transactions at the same time as they occur.

51. It is clear that it may not always be possible for a person to record groups of transactions contemporaneously, as the grouping of transactions may take place over a period of time. In the circumstances outlined in paragraphs 12 to 17 above, we accept that the summary record still accurately records all of the transactions.

52. We recognise the difficulties that some persons have in retaining large volumes of paper records and the compliance costs associated with this. They may want to retain the information contained in those records in a more convenient form, e.g., microfilm, microfiche and CD ROM. Section 25 of the *Acts Interpretation Act 1901* defines the word 'record', where it appears in any Act, as including information stored or recorded by means of a computer.

Manner of keeping records

53. Clause 42 of the Explanatory Memorandum referred to in paragraph 29 above makes it clear that paragraph 262A(3)(a) was introduced to cover the keeping of electronic records. It states that:

> 'Subsection 262A(3) obliges a person who is required by the section to keep records, to keep those records:
>
> > by paragraph (a) – in the English language or, if not in written form (e.g., in an electronic medium such as magnetic tape or computer disc), in a form which is readily accessible and convertible into writing in English.'

54. We consider that the requirement in paragraph 262A(3)(b) that a person must keep records so as to 'enable' the person's liability under the Act to be readily ascertained, refers to the ability of ATO staff to be able to readily ascertain that person's liability. This is consistent with the underlying purpose of section 262A to assist the Commissioner in ascertaining a person's liability. We recognise that ATO staff need to have accounting skills to be able to readily ascertain a person's liability.

55. The *Macquarie Dictionary* defines 'readily' as:

> '1. promptly; quickly; easily.'

It defines 'ascertain' as:

> 'to find out by trial, examination or experiment, so as to know as certain; determine.'

Generally, we would expect that ATO staff with accounting skills would be able to quickly and easily determine a person's taxation liability without needing too much assistance from that person. However, we recognise that because of the complexity of some businesses, ATO staff will find it useful to have the helpful assistance of the person and/or the person's representative to readily ascertain the person's liability.

56. There are circumstances where it is possible for ATO staff to readily ascertain a person's liability from the records referred to in paragraphs 19 and 20 above. This would be the case where the simple nature of the business is such that those records easily show the person's income and expenditure (see Example 2 in this Ruling). However, in most circumstances, businesses do not operate in this kind of environment and need accounting systems which trace business transactions from their source to the financial accounts. In that situation, it would not be possible for ATO staff to readily ascertain a person's liability without referring to those secondary records, e.g., journals, ledgers and financial accounts, that provide a record of that system.

57. Paragraph 262A(4)(a) makes it clear that the records which are to be kept under section 262A must be kept for 5 years after the records were prepared or obtained, or the completion of the transactions to which they relate, whichever is the later. We believe that this is an ongoing obligation over the retention period. This view supports the Commissioner's ability to be able to readily ascertain a person's taxation liability at any time after the completion of the transactions. This is important because the Commissioner has the power to raise an assessment at any time under section 168 of the Act.

Examples

Example 1

The facts

58. David and Stephanie own a neighbourhood newsagency. Due to the large number of customers, they operate with the help of a part-time assistant.

59. Most of the newsagency's sales involve small amounts of cash, except for some regular customers who have monthly accounts. They have a cash register through which they record all cash sales, including the monthly accounts. Any cash removed from the cash register for personal drawings, refunds, minor purchases, etc., is noted in a separate record used for this purpose.

60. The newsagency makes its trade purchases through a small number of established publishing and stationery distributors. These operate on monthly invoice arrangements. They provide a delivery docket with each delivery and Stephanie reconciles this with the items delivered. David and Stephanie pay the invoices once a month by cheque after they have reconciled them with the relevant delivery docket.

61. At the end of each business day, Stephanie reconciles the contents of the cash register with the cash register tape, taking into consideration any cash removed from the cash register for personal drawings, refunds, minor purchases, etc. After the reconciliation, Stephanie tears off the 'Z-totals' at the bottom of the cash register tape and glues them into a book in chronological order, noting any discrepancies between the 'Z-total' and the cash contained in the register. She then banks the cash.

62. Once a month, Stephanie receives a statement from the bank containing details of her cash deposits. She reconciles this statement with the 'Z-totals' and other records which she has kept. Stephanie retains the rolls of tape produced by the cash register for one month after she has reconciled the bank statement with the 'Z-totals' and other records. She then disposes of the rolls of tape. However, Stephanie retains the 'Z-totals', bank statements and other records for the statutory period.

63. At the end of each month, Stephanie also reconciles the newsagency's sales, purchases and other expenses for that month, e.g., rent, wages, motor vehicle costs, etc., to determine whether the newsagency made a profit or a loss during that month. She summarises this information on a personal computer. This forms the basis of the information used to prepare the newsagency's income tax return at the end of the year of income.

Our view

64. We consider that either the cash register tape or the 'Z-totals' would record and explain all cash transactions relating to the income of the newsagency. This is because both the tapes and the 'Z-totals' provide similar information as to the essential features of the cash transactions (see paragraph 12 of this Ruling).

65. As Stephanie keeps the cash register tapes for one month after she has reconciled the 'Z-totals' and other records with the bank statement, we consider that this would enable an officer of the ATO to verify that the 'Z-totals' are an accurate record of the cash sales made by the business.

66. For purchases, we consider that the invoices, along with proof of payment from the bank statement, would record and explain all the purchases of the newsagency.

67. As Stephanie reconciles the newsagency's accounts every month, we consider that the monthly summary on the computer is an appropriate manner to keep the records so as to allow the newsagency's liability to be readily ascertained (see paragraphs 24 and 25 of this Ruling).

Example 2

The facts

68. Kathy owns a small, up-market fashion boutique. Kathy only sells a small number of items per day. Due to the price of these items, the great majority of sales are by credit card. However, a small number of low price items are sold for cash. She manages the business without any assistance.

69. Kathy does not use a cash register to record her sales. Whenever she sells an item for cash she provides the customer with a hand written receipt from a numbered receipt book and retains a duplicate in the book.

70. For credit card sales, Kathy keeps the merchant's copy of the credit card voucher and forwards the original to the bank for payment. The bank deposits the payments directly into the business' bank account. Once a month, Kathy receives a summary statement from the bank of payments received. She reconciles this with her copies of the original credit card vouchers. She keeps the credit card vouchers for three months after the reconciliation and then disposes of them.

71. Kathy checks the receipt book and the contents of the cash box at the end of the day, taking into consideration any cash removed for personal drawings, refunds, minor purchases, etc. She then deposits the cash in the business' bank account.

72. Kathy's boutique relies on a wide variety of sources for the items that it sells. These sources are subject to constant change as Kathy seeks to keep up with the latest trends in fashion.

73. The boutique's trading stock is delivered by courier and is accompanied by an invoice and a delivery docket. Kathy checks that the delivery docket and the invoice correspond to the items delivered before putting the items on the shop floor for sale. She attaches the delivery docket to the invoice and notes in a diary the due date for payment of the invoice. Kathy then places the invoice in a separate box containing all other invoices awaiting payment. She pays the invoices by cheque from the business' bank account on the due date. Once paid, she transfers the invoice into another box containing all the other paid invoices.

74. The bank provides a statement of the business' bank account to Kathy once a month. She checks this statement against the deposit book and the cheque butts for any discrepancies.

75. Kathy does not review the boutique's financial position on a regular basis. She keeps all the bank statements, deposit books, receipt books, invoices, credit card statements and cheque butts in a separate area in the boutique. At the end of the year of income she reviews them in order to prepare her tax return.

Our view

76. For credit card sales, as Kathy retains the receipt book and the bank's summary statements of her credit card sales, we consider that it is not necessary for her to also retain the credit card vouchers. This is because the individual vouchers provide no additional information about the essential features of the credit transactions than do the bank's summary statements (see paragraph 17 of this Ruling).

77. However, if Kathy makes credit card sales in the current year of income, and doesn't present the individual credit card vouchers to her bank until the next year of income, we consider that she also must retain the individual vouchers until she reconciles them with the bank's next summary statement. Once Kathy records which of the notations appearing on the next summary statement refer to credit sales made in the previous year of income, we would accept that she then no longer needs to keep the individual vouchers.

78. We consider that it is not necessary for Kathy to prepare secondary records that summarise the boutique's financial position on

a regular basis. This is because, as the boutique only sells a relatively small number of items per day, it is possible to readily ascertain the boutique's liability without referring to any secondary records.

79. As Kathy does not do a reconciliation of her cash sales, she needs to keep the receipt books for the statutory period.

Example 3

The facts

80. Peter has a stall at a fruit and vegetable market where he sells produce that he buys from local farmers. The market is open only on weekends where it caters mainly to the casual passing trade. Peter operates the stall without any assistance.

81. Peter deals in cash only. All his sales are for small amounts of cash which he keeps in a bag around his waist. Peter does not provide any receipts or other records to his customers and does not have a cash register. At the end of the day Peter puts all the cash from his waist bag onto a table at home and counts it. He writes down his takings for the day (less the float) in a book which he keeps for this purpose, taking into consideration any cash earned that was used for other purposes, e.g., personal drawings, minor purchases, etc., that would have the effect of providing an incorrect figure of his total cash sales. He then deposits the cash in his bank account every Monday. Every month, Peter reconciles the amounts in the takings' book with his bank statement. Peter retains the takings' book and the bank statements as a record of his takings.

82. Peter purchases his produce every Saturday morning. He pays for all his purchases with cash. He withdraws the cash from his bank account the day before. He retains any amount he does not use for purchases as a float. Peter makes a record of what and how much he purchased from each farmer in a book he has for this purpose. He retains this book as a record of his purchases.

Our view

83. We consider that, although Peter does not make a contemporaneous record of each individual transaction, the daily summaries in the takings' and purchases' books of the cash received and the purchases made explain the essential features of all of his transactions and enable his taxation liability to be readily ascertained (see paragraphs 16 and 20 of this Ruling).

Previous Rulings

84. Taxation Ruling IT 2349 is now withdrawn. To the extent that the principles in that Ruling are still applicable, we have incorporated them into this Ruling.

Commissioner of Taxation
20 March 1996

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- BA 270(1)
- ITAA 51(1)
- ITAA 168
- ITAA 262A
- ITAA 262A(1)
- ITAA 262A(2)
- ITAA 262A(3)
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