The Internal Revenue Service Record-Keeping Requirements for Churches*

In general, a church must keep books and records to show that it complies with the tax rules. The church must be able to document the sources of receipts and expenditures. If a church does not keep required records, it may be unable to show it qualifies for exemption. Thus, the church may lose its tax-exempt status. In addition, a church may be unable to complete its returns accurately and may be subject to penalties. A good record-keeping system will also enable a church to monitor the progress of programs and aid in the preparation of financial statements.

**Financial Statements**

It is important to maintain revenue and expense statements and balance sheets to prepare accurate financial statements.

**Required Records**

Records must support income, expenses, and credits. Generally, these are the same records used to monitor programs and prepare financial statements. Also, books and records of churches must be available for inspection by the IRS. A complete set of records will speed up the examination. Section 1.6001-1 of the Income Tax Regulations requires a church to keep books and records sufficient to show specific items of gross income, receipts, and disbursements and to substantiate the information required by section 6033 of the IRC.

Except in a few cases, the law does not require a special kind of record. A church can choose any record-keeping system, suited to its activities, that clearly shows the church’s income and expenses. The type of activities the church conducts affects the type of records necessary to keep for federal tax purposes. A church should set up a record-keeping system using an accounting method that clearly shows its income for the tax year. If the church has more than one program, the church should keep a complete and separate set of records.

A record-keeping system should generally include a summary of transactions. The summary is ordinarily written in the church’s books (for example, accounting journals and ledgers). The books must show gross receipts and functional expenses, as well as deductions and credits. For most small churches, the checkbook is the main source for entries in the books. In addition, the church must keep documentation that supports entries in the books.

Church transactions such as contributions, purchases, sales, and payroll will generate supporting documents. These documents – grant applications and awards, sales slips, paid bills, invoices, receipts, deposit slips and canceled checks – contain information to be recorded in accounting records. It is important to keep these documents because they support the entries in books and the entries on tax and information returns. Churches should keep them in an orderly fashion and in a safe place. For instance, organize them by year and type of receipt or expense.

**Gross Receipts**

Gross receipts are the amounts received from all sources. A church must keep supporting documents that show the amounts and sources of its gross receipts. Documents that show gross receipts include: bank deposit slips, receipt books, invoices, credit card charge slips, and Form 1099 MISC.

**Expenses**

Expenses are the costs a church incurs to carry on its program. Supporting documents should show the amount paid and the purpose of the expense. Documents for expenses include: canceled checks, account statements, credit card sales slips, invoices, and petty cash slips for small cash payments.

**Assets**

Assets are the property, such as investments, buildings, and furniture that a church owns and uses in its activities. A church must keep records to verify certain information about its assets. Records should show:

- When and how the asset was acquired
- Whether any debt was used to acquire the asset
- Purchase price
- Cost of any improvements
- How the asset was used
- When and how the asset was disposed of
- Selling price
- Expenses of sale

Documents that may show the above information include: purchase and sales invoices, real estate closing statements, canceled checks, and financing documents. If a church does not have canceled checks, it may be able to show payment with certain financial account statements prepared by financial institutions. These include account statements prepared for the financial institution by a third party. Account statements must be highly legible.


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