



Department of Taxation and Finance

The Earned Income Tax Credit

Recordkeeping Suggestions for Self-employed Persons

If you're a self-employed person who has applied for the Earned Income Tax Credit (EITC) (also known as the Earned Income Credit or EIC), it's important that you maintain good records.

The Tax Department may ask you to produce records that prove the amount of income and expenses claimed on your income tax return.

- The department will use that information to confirm that you're entitled to the credit.
- If you don't keep records, or if your records don't prove what you claimed, you won't get your money.

If you're required to pay any other New York State taxes, such as sales tax, you'll also have to keep records that support the amounts you claim on those returns.

For these reasons, it's important that you keep good records. These suggestions will help you do that.

How to Keep Good Records

As a general rule, you should keep records of your transactions - payments, purchases, etc. - at the time they happen. Don't wait until the Tax Department asks for your records. If you try to describe the details of your business months - or even years - later, your recollection may not be reliable. The Tax Department is less likely to accept records created long after the fact.

Maintain a daily log

It's a good idea to keep daily records of all your business transactions. Be sure to:

- provide detailed information about each transaction
- update your records every time you make a purchase, pay an expense, make a sale, or get paid

You can keep a log book or keep records on your computer. See the back for examples of a daily log.

Keep receipts and other documents

Be sure to keep documentation that supports each entry in your log. Examples of supporting documentation include:

- copies of checks or money orders that you received as payments, or used to pay expenses
- receipts and invoices for payments you made
- credit card statements and receipts

Use a bank account

Having a bank account can help establish your income, particularly if you receive payments by check. Copies of deposit slips, cashed checks, and bank statements can support your claims.

Keep records for three years

The Tax Department may ask for your records as long as three years after you file your return.

Are you self-employed?

You're considered self-employed if you:

- are paid directly by customers or clients; and
- you don't get a regular paycheck from one or more employers

Examples of self-employed persons include: landscapers, contractors, builders, painters, plumbers, electricians, babysitters and housecleaners.

Audit Process

Getting a letter from the Tax Department asking for more information doesn't mean you've done anything wrong. It only means that the department wants to confirm the amounts reported on your tax return.

The department will review the information you provide and use it to confirm that your tax return is accurate.

- Make sure the information you submit is accurate and supports what you claimed on your return. If your information isn't consistent with what you claimed, you won't get your credit.
- Don't ignore letters from the Tax Department. If you don't respond, you won't get your money.

Here are some examples of where the department disallowed claims:

- Worker claimed she was a book seller, but receipts for expenses were unrelated to book selling.
- Worker stated that she received approximately \$200 per week in cash as a housekeeper but provided no supporting documentation.
- Worker submitted a sworn statement that she provided child care services, but didn't submit any other documentation.

An example of where the department approved the credit:

- In support of claimed income from child care services, worker submitted a list of clients and a log book of earnings supported by receipts, canceled checks and bank statements.

If your claim for a credit is denied:

You can ask for an informal review by sending us information that supports your claim via Web, fax, or mail. If your claim is denied again, you can request further review in two ways:

Conference – an informal meeting with Tax Department's Bureau of Conciliation and Mediation Services (BCMS). You must request a conference within 90 days of the denial.

Petition – a more formal procedure that will require you to file a written petition, which will be reviewed by a hearing officer. To file a petition, you must:

- wait **six months** after the date you submitted your refund claim, or
- if your claim has been denied, file within **two years** from the **Notice of Disallowance** we send you.

To learn more:

- See the instructions on the notice you received from the Tax Department denying your credit
- Visit our Web site (see below) or the IRS Web site at **www.irs.gov**
- Call us at (518) 457-5181

Sample logbook entries

Income:

Date	Received From	Amount Received	How	Explanation
Jan 1	Ms. Jones, 110 East Avenue, Apt. 12, tel.#212-000-0000	\$75.00 with check copy	Check	Cleaning
Jan 1	Jane Doe, 20 West Street, Apt. 6, tel.#516-000-0000	\$25.00	Cash	Babysitting (two hours 10pm - midnight at standard \$10.00 rate, plus \$5 tip)

Expenses:

Date	Paid To	Amount	How	Explanation
Jan 1	Carlos' Bodega	\$5.00 receipt attached	Cash	Cleaning Supplies (sponges and cleaners)
Jan 1	Taxi	\$6.25	Cash	Cab from 20 West to home (midnight)
Jan 3	Playateria	\$7.25 (receipt attached)	Cash	Coloring books/crayons