

117-200 Recordkeeping

117-200.1. Retention of Books and Records and the Use of Microfilm Reproduction of Books and Records

117-200.2. Model Recordkeeping and Retention

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Code Section 12-54-210 requires all taxpayers to keep books and records as the South Carolina Department of Revenue may prescribe. Code Section 12-54-100 authorizes the Department to examine the books and records of a taxpayer to ascertain the correctness of any return or tax liability. The following concerns the recordkeeping requirements of a taxpayer.

117-200.1. Retention of Books and Records and the Use of Microfilm Reproduction of Books and Records.

A person applying for or holding a license administered by the Department; liable for any tax, fee, or surcharge administered by the Department; or required to file any return or statement with the Department shall keep books, papers, memoranda, and records sufficient to establish the right to obtain or hold a license; any amount required to be shown on any return or statement; or any tax, fee or surcharge due, whether such amount due is paid with the filing of a return, electronically, or in any other manner. For purposes of this subsection, a return includes information returns or reports.

Such books or records are required to be kept at all times available for inspection by agents or auditors of the Department, and shall be retained for at least four years after the return was filed or due to be filed, whichever is later.

Only on prior written approval of the Department may microfilm reproductions of supporting records of details, such as but not limited to documents of original entry, purchase orders, invoices, checks, vouchers and payroll records, be retained in lieu of actual documents and then only when the following conditions are met:

1. The taxpayer will retain microfilm copies as long as the contents thereof may become material in the administration of any law by the Department;
2. The taxpayer will provide appropriate facilities for preservation of the films and for the ready inspection and location of the particular records, including a projector for viewing the records in the event inspection is necessary; and
3. The taxpayer will be ready to make any transcripts of the information contained on the microfilm which may be required.

117-200.2. Model Recordkeeping and Retention.

(A) The purpose of this regulation is to define the requirements imposed on taxpayers for the maintenance and retention of books, records, and other sources of information under Code Section 12-54-210. It is also the purpose of this regulation to address these requirements where all or a part of the taxpayer's records are received, created, maintained, or generated through various computer, electronic, and imaging processes and systems.

(B) For the purposes of this regulation, these terms shall be defined as follows:

(1) "Database management system" means a software system that controls, relates, retrieves, and provides accessibility to data stored in a database.

(2) "Electronic data interchange" or "EDI technology" means the computer-to-computer exchange of business transactions in a standardized structured electronic format.

(3) "Hardcopy" means any documents, records, reports, or other data printed on paper.

(4) "Machine-sensible record" means a collection of related information in an electronic format. Machine-sensible records do not include hardcopy records that are created or recorded on paper or stored in or by an imaging system such as microfilm, microfiche, or storage-only imaging systems.

(5) "Storage-only imaging system" means a system of computer hardware and software that provides for the storage, retention, and retrieval of documents originally created on paper. It does not include any system, or part of a system, that manipulates or processes any information or data contained on the document in any manner other than to reproduce the document in hardcopy or as an optical image.

(6) "Taxpayer" as used in this regulation means a person who is liable for a tax or who is responsible for collecting and remitting a tax. "Taxpayer" includes any licensee and any applicant for a license, issued by or administered by the Department.

(7) "Department" means the South Carolina Department of Revenue.

(C)(1) Pursuant to Code Section 12-54-210, a taxpayer shall maintain all records that are necessary to a determination of the correct tax liability under laws administered by the Department. All required records must be made available on request by the Department or its authorized representatives as provided for in Code Sections 12-54-100 and 12-4-330(A).

(2) If a taxpayer retains records required to be retained under this regulation in both machine-sensible and hardcopy formats, the taxpayer shall make the records available to the Department in machine-sensible format upon request of the Department pursuant to Code Sections 12-54-100 and 12-4-330(A).

(3) Nothing in this regulation shall be construed to prohibit a taxpayer from demonstrating tax compliance with traditional hardcopy documents or reproductions thereof, in whole or in part, whether or not such taxpayer also has retained or has the capability to retain records on electronic or other storage media in accordance with this regulation. However, this provision shall not relieve the taxpayer of the obligation to comply with this subsection.

(D)(1) Machine-sensible records used to establish tax compliance shall contain sufficient transaction-level detail information so that the details underlying the machine-sensible records can be identified and made available to the Department upon request. A taxpayer has discretion to discard duplicated records and redundant information provided its responsibilities under the law are met.

(2) At the time of an examination, the retained records must be capable of being retrieved and converted to a standard record format.

(3) Taxpayers are not required to construct machine-sensible records other than those created in the ordinary course of business. A taxpayer who does not create the electronic equivalent of a traditional paper document in the ordinary course of business is not required to construct such a record for tax purposes.

(E)(1) Where a taxpayer uses electronic data interchange processes and technology, the level of record detail, in combination with other records related to the transactions, must be equivalent to that contained in an acceptable paper record. For example, the retained records should contain such information as vendor name, invoice date, product description, quantity purchased, price, amount of tax, indication of tax status, shipping detail, etc. Codes may be used to identify some or all of the data elements, provided that the taxpayer provides a method which allows the Department to interpret the coded information.

(2) The taxpayer may capture the information necessary to satisfy section (E)(1) at any level within the accounting system and need not retain the original EDI transaction records provided the audit trail, authenticity, and integrity of the retained records can be established. For example, a taxpayer using electronic data interchange technology receives electronic invoices from its suppliers. The taxpayer decides to retain the invoice data from completed and verified EDI transactions in its accounts payable system rather than to retain the EDI transactions themselves. Since neither the EDI transaction nor the accounts payable system captures information from the invoice pertaining to product description and vendor name (i.e., they contain only codes for that information), the taxpayer also retains other records, such as its vendor master file and product code description lists and makes them available to the Department. In this example, the taxpayer need not retain its EDI transaction for tax purposes.

(F) The requirements for an electronic data processing accounting system should be similar to that of a manual accounting system, in that an adequately designed accounting system should incorporate methods and records that will satisfy the requirements of this law.

(G)(1) Upon the request of the Department, the taxpayer shall provide a description of the business process that created the retained records. Such description shall include the relationship between the records and the tax documents prepared by the taxpayer and the measures employed to ensure the integrity of the records.

(2) The taxpayer shall be capable of demonstrating:

(a) the functions being performed as they relate to the flow of data through the system;

(b) the internal controls used to ensure accurate and reliable processing; and,

(c) the internal controls used to prevent unauthorized addition, alteration, or deletion of retained records

(3) The following specific documentation is required for machine-sensible records retained pursuant to this regulation:

(a) record formats or layouts;

(b) field definitions (including the meaning of all codes used to represent information);

(c) file descriptions (e.g., data set name);

(d) detailed charts of accounts and account descriptions.

(H)(1) It is recommended but not required that taxpayers refer to the National Archives and Record Administration's (NARA) standards for guidance on the maintenance and storage of electronic records, such as the labeling of records, the location and security of the storage environment, the creation of back-up copies, and the use of periodic testing to confirm the continued integrity of the records. [The NARA standards may be found at 36 Code of Federal Regulations, Part 1234, July 1, 1995 edition.]

(2) The taxpayer's computer hardware or software shall accommodate the extraction and conversion of retained machine-sensible records.

(I)(1) The manner in which the Department is provided access to machine-sensible records as required in subsection (C)(2) of this regulation may be satisfied through a variety of means that shall take into account a taxpayer's facts and circumstances through consultation with the taxpayer.

(2) Such access will be provided in one or more of the following ways:

(a) The taxpayer may arrange to provide the Department with the hardware, software, and personnel resources to access the machine-sensible records;

(b) The taxpayer may arrange for a third party to provide the hardware, software, and personnel resources necessary to access the machine-sensible records;

(c) The taxpayer may convert the machine-sensible records, including copies of files, to a standard record format specified by the Department on a magnetic medium that is agreed to by the Department;

(d) The taxpayer and the Department may agree on other means of providing access to the machine-sensible records.

(J)(1) In conjunction with meeting requirements of subsection (D), the taxpayer may create files solely for the use of the Department. For example, if a database management system is used, it is consistent with this regulation for the taxpayer to create and retain a file that contains the transaction-level detail from the data-base management system and that meets the requirements of subsection (D). The taxpayer should document the process that created the separate file to show the relationship between that file and the original records.

(2) A taxpayer may contract with a third party to provide custodial or management services of the records. Such a contract shall not relieve the taxpayer of its responsibilities under the law or this regulation.

(K)(1) For purposes of storage and retention, taxpayers may convert hardcopy documents received or produced in the normal course of business and required to be retained under this regulation to microfilm, microfiche or other storage-only imaging systems and may discard the original hardcopy documents provided the conditions of this regulation are met. Documents that may be stored on these media include, but are not limited to, general books of account, journals, voucher registers, general and subsidiary ledgers, and supporting records of details such as sales invoices, purchase invoices, exemption certificates, and credit memoranda.

(2) Microfilm, microfiche, and other storage-only imaging systems shall meet the following requirements:

(a) Documentation establishing the procedures for converting the hardcopy documents to microfilm, microfiche, or other storage-only imaging systems must be maintained and made available on request. Such documentation shall, at a minimum, contain a sufficient description to allow an original document to be followed through the conversion system as well as internal procedures established for inspection and quality assurance.

(b) Procedures must be established for the effective identification, processing, storage, and preservation of the stored documents and for making them available for the period they are required to be retained.

(c) Upon request by the Department, a taxpayer must provide facilities and equipment for reading, locating, and reproducing any documents maintained on microfilm, microfiche, or other storage-only imaging systems.

(d) When displayed on such equipment or reproduced on paper, the documents must exhibit a high degree of legibility and readability. For this purpose, legibility is defined as the quality of a letter or numeral that enables the observer to identify it positively and quickly to the exclusion of all other letters or numerals. Readability is defined as the quality of a group of letters or numerals being recognizable as words or complete numbers.

(e) All data sorted on microfilm, microfiche, or other storage-only imaging systems must be maintained and arranged in a manner that permits the location of any particular record.

(f) There is no substantial evidence that the microfilm, microfiche, or other storage-only imaging system lacks authenticity or integrity.

(L)(1) Except as otherwise provided in this regulation, the provisions of this regulation do not relieve taxpayers of the responsibility to retain hardcopy records that are created or received in the ordinary course of business as required by existing law and regulations. Hardcopy records may be retained on a recordkeeping medium as provided in subsection (K) of this regulation.

(2) If hardcopy records are not produced or received in the ordinary course of transacting business (e.g., when the taxpayer uses electronic data interchange technology), such hardcopy records need not be created.

(3) Hardcopy records generated at the time of a transaction using a credit or debit card must be retained unless all the details necessary to determine correct tax liability relating to the transaction are subsequently received and retained by the taxpayer in accordance with this regulation. Such details include those listed in subsection (E)(1).

(4) Computer printouts that are created for validation, control, or other temporary purposes need not be retained.

(5) Nothing in this regulation shall prevent the Department from requesting hardcopy printouts in lieu of retained machine-sensible records at the time of examination.

(M) The Department may allow a taxpayer to use other methods of maintaining and providing records that are received, created, maintained, or generated through various computer, electronic, and imaging processes and systems where such is in the best interest of the state.

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