

## **Seattle Rule 5-008**

Recordkeeping requirements.

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(1) Introduction. This rule defines the requirements for the maintenance and retention of books, records, and other source of information. It also addresses these requirements where all or a part of the taxpayers books and records are received, created, maintained, or generated through various computer, electronic, and/or imaging processes and systems.

(2) Definitions. For purposes of this rule the following definitions will apply:

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

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

(c) Hard copy means any documents, records, reports or other data printed on paper.

(d) Machine-sensible record means a collection of related information in any electronic format (e.g., database management systems, EDI technology, automated data process systems, etc.). Machine-sensible records do not include hard-copy 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.

(e) Records means all books, data, documents, reports, or other information, including those received, created, maintained, or generated through various computer, electronic, and/or imaging processes and systems.

(f) 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 hard copy or as an optical image.

(3) Recordkeeping requirements-General.

(a) Every taxpayer liable for a tax or fee imposed under Seattle Municipal Code Title 5 must keep complete and adequate records from which the Director may determine any tax liability for such taxpayer.

(b) It is the duty of each taxpayer to prepare and preserve all records in a systematic manner conforming to accepted accounting methods and procedures. Such records are to be kept, preserved, and presented upon request of the Director, which demonstrate:

(i) The amounts of gross receipts and gross income from all sources, however derived, including barter or exchange transactions, whether or not such receipts or income are taxable. These amounts must be supported by original source documents or records including but not limited to all purchase invoices, sales invoices, contracts, and such other records as may be necessary to substantiate gross receipts and income; and

(ii) The amounts of all deductions, exemptions, or credits claimed through supporting records or documentation required by statute or administrative rule, or other supporting records or documentation necessary to substantiate the deduction, exemption, or credit.

(iii) The amounts of any refunds claimed. These amounts shall be supported by records as may be necessary to substantiate the refunds claimed. Refer to Seattle Rule 5-012 for information on the refund process.

(c) The records kept, preserved, and presented shall include the normal records maintained by an ordinary prudent business person. Such records may include general ledgers, sales journals, cash receipts journals, bank statements, check registers, and purchase journals, together with all bills, invoices, cash register tapes, and other records or documents of original entry supporting the books of account entries. The records shall include all federal and state tax returns and reports and all schedules, work papers, instructions, and other data used in the preparation of the tax reports or returns. The records shall also include financial statements and profit and loss statements.

(d) If a taxpayer retains records in both machine-sensible and hard-copy formats, the taxpayer must make the records available to the Department in machine-sensible format upon request of the Department. However, the taxpayer is not prohibited from demonstrating tax compliance with traditional hard-copy documents or reproductions thereof, although this does not eliminate the requirement that they provide access to machine-sensible records, if requested.

(e) Machine-sensible records used to establish tax compliance must 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.

(f) At the time of an examination, the retained records must be capable of being retrieved and converted to a readable record format, as required in section (7) below.

(g) 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.

(4) Record retention period. SMC 5.55.060 requires that all records must be open for inspection and examination at any time by the Director, upon reasonable notice, and must be kept and preserved for a period of five (5) years. The statute of limitations on assessments of a person engaging in business without a business license tax certificate is ten (10) years plus the current year. All taxpayers are responsible for keeping records from which the Director may ascertain the correct amount of tax. For persons engaging in business without a business license tax certificate, records will be requested for ten (10) years preceding the current year.

(5) Failure to maintain or disclose records. Any taxpayer who fails to comply with the requirements of SMC 5.55.060 or this rule is forever barred from questioning, in any court action or proceedings, the correctness of any assessment of taxes made by the Director based upon any period for which such books, records, and invoices have not been so kept, preserved, or disclosed. Where complete and adequate records are not maintained, or when such records are not provided to the Director, the Director shall make an estimated assessment based upon the best information available to the Director.

(6) Where records must be produced. Records must be produced in Seattle unless:

(a) The taxpayer does not maintain the required records in Seattle;

(b) Permits the examination of the records at the place where the records are kept; and

(c) The taxpayer pays in advance the cost of travel to the location where such records are kept.

(7) Electronic records.

(a) Electronic Data Interchange Requirements.

(i) Where a taxpayer uses electronic data interchange (EDI) 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 Director to interpret the coded information.

(ii) The taxpayer may capture the information 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 must also retain other records, such as its vendor master file and product code description lists and make them available to the Director. In this example, the taxpayer need not retain its EDI transaction for tax purposes if the vendor master file contains the required information.

(b) Electronic Data Processing Systems Requirements. 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 section.

(c) Internal controls.

(i) Upon the request of the Director, the taxpayer must provide a description of the business process that created the retained records. Such description must 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.

(ii) The taxpayer must 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.

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

(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); and

(D) Detailed charts of accounts and account descriptions.

(8) Access to machine-sensible records.

(a) The manner in which the Director is provided access to machine-sensible records may be satisfied through a variety of means that shall take into account a taxpayer's facts and circumstances through consultation with the taxpayer.

(b) Such access will be provided in one or more of the following manners:

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

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

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

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

(9) Storage-only imaging systems.

(a) For purposes of storage and retention, taxpayers may convert hard-copy documents received or produced in the normal course of business and required to be retained under this section to microfilm, microfiche or other storage-only imaging systems and may discard the original hard-copy documents, provided the conditions of this section are met. Documents which 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.

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

(i) Documentation establishing the procedures for converting the hard-copy documents to microfilm, microfiche or other storage-only imaging system must be

maintained and made available upon request. Such documentation must, 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;

(ii) Procedures must be established for the effective identification, processing, storage, and preservation of the stored documents and for making them available for a period of five (5) years;

(iii) Upon request by the Director, a taxpayer must provide facilities and equipment for reading, locating, and reproducing any documents maintained on microfilm, microfiche or other storage-only imaging system;

(iv) 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;

(iv) All data stored 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; and

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

(10) Effect on hard-copy recordkeeping requirements.

(a) The provisions of this rule do not relieve taxpayers of the responsibility to retain hard-copy records that are created or received in the ordinary course of business as required by existing law and regulations, except as otherwise provided in this section. Hard-copy records may be retained on a recordkeeping medium as provided in section (9) of this rule.

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

(c) Hard-copy 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 section.

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

(e) Nothing in this section prevents the Director from requesting hard-copy printouts in lieu of retained machine-sensible records at the time of examination.

DIRECTOR'S CERTIFICATION

I, Glen M. Lee, Finance Director of the City of Seattle, do hereby certify under penalty of perjury of law, that the within and foregoing is a true and correct copy as adopted by the City of Seattle, Department of Finance and Administrative Services.

DATED this \_\_\_\_ day of July 2016.

CITY OF SEATTLE,

a Washington municipality

By: \_\_\_\_\_

Glen M. Lee, Finance Director

Department of Finance and Administrative Services

Effective date: July 14, 2016

Jul 14, 2016