

Revenue Procedure 92-71, Section 3.03

SECTION 1. PURPOSE

In response to inquiries from taxpayers and financial institutions, this revenue procedure describes account statements that will be accepted as proof of payment of an amount by a taxpayer for purposes of substantiating federal income tax deductions. Generally, a taxpayer proves payment of an amount by producing a canceled check. In certain circumstances, however, a financial institution may not return canceled checks (check truncation), or payment may be made through a financial institution (by electronic funds transfer or by credit card) without using a check. This revenue procedure addresses these circumstances and provides when an account statement prepared by a financial institution, or other evidence of payment, will be accepted by the Service as proof of payment of an amount. However, this revenue procedure does not expand the circumstances in which the Service will ask the taxpayer for copies of canceled checks or other proof of payment of an amount.

SEC. 2. BACKGROUND

.01 Section 6001 of the Internal Revenue Code provides that every person must keep sufficient records to show whether or not that person is liable for tax.

.02 Pursuant to section 6001 of the Code, the Internal Revenue Service requires records showing that a person is entitled to deduct, credit, or capitalize basis in, items claimed in calculating tax liability. One of the elements showing entitlement to a deduction, credit, or basis is proof of payment of an amount. A canceled check is proof of payment of an amount.

.03 However, some financial institutions do not return canceled checks to account holders (check truncation systems). Additionally, at some financial institutions, taxpayers pay expenses by transferring funds electronically from checking or other accounts without using a check, share draft, negotiable order of withdrawal, or similar paper instruction (collectively referred to in this revenue procedure as "checks"). Also, many taxpayers pay expenses by credit card.

.04 Check Truncation: Under check truncation systems (also known as safeguard or safekeeping checking systems), canceled checks are not returned to the account holder. The canceled check generally is retained by the financial institution for a certain number of years. For example, under the Bank Secrecy Act regulations, banks generally are required to retain canceled checks for a period of five years. See 31 CFR §103 (1991). The canceled check is retained sometimes as an original document but more typically as a microfilmed or electronic image of the front and back of the check. The account holder's record of the transaction is usually limited to a checkbook register entry and perhaps a retained carbon copy of the check. A monthly account statement provided by the financial institution typically shows a check number and a decrease in the account holder's balance for each check drawn on the account, but does not typically identify

the payee. Ordinarily, the financial institution can supply a reproduced copy of a canceled check to an account holder upon request (and, often, for a fee).

.05 Electronic Funds Transfers: These transfers of funds are initiated by electronic terminal, telephone, computer, or magnetic tape instead of by signing a paper check. Electronic funds transfer systems include retail merchants' point of sale debit card systems and telephone bill payment systems. The account holder often receives no written record of a transaction from the financial institution other than a monthly account statement that itemizes the month's transactions and identifies the payees.

.06 Credit Cards: Taxpayers frequently pay expenses by credit card. Using a credit card is equivalent to paying an expense with funds borrowed from a third party financial institution. The cardholder's record of the transaction is usually limited to a retained carbon copy of the charge slip. The cardholders also receives a monthly account statement from the financial institution that itemizes the month's transactions and identifies the payees.

.07 If a taxpayer cannot provide a canceled check to prove payment of an amount, section 3 of this revenue procedure describes account statements that a taxpayer can provide to prove payment of an amount by check, electronic funds transfer, or credit card. If neither a canceled check nor an account statement described in section 3 can be provided, the Service will generally require a taxpayer to provide other evidence to prove payment of an amount. See section 4 of this revenue procedure.

SEC 3. PROOF OF PAYMENTACCOUNT STATEMENTS

.01 An account statement prepared by a financial institution showing a check clearance (i.e., a decrease to the account holder's balance) will be accepted as proof of payment if the statement shows:

1. the check number,
2. the amount of the check,
3. the date the check amount was posted to the account by the financial institution, and
4. the name of the payee.

.02 An account statement prepared by a financial institution showing an electronic funds transfer (i.e., a decrease to the account holder's balance) will be accepted as proof of payment if the statement shows:

1. the amount of the transfer,
2. the date the transfer was posted to the account by the financial institution, and
3. the name of the payee.



.03 An account statement prepared by a financial institution showing a credit card charge (i.e., an increase to the cardholder's "loan" balance) will be accepted as proof of payment if the statement shows:

1. the amount of the charge,
2. the date of the charge by the cardholder (i.e., the transaction date), and
3. the name of the payee.

.04 In order to be accepted as proof of payment, an account statement 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 and numerals. Readability is defined as the quality of a group of letters or numerals being recognizable as words or complete numbers. This does not mean, however, that the required information must be typed or printed on the account statement. For example, the Service will accept an account statement that reproduces the required information in the account holder's own handwriting from checks or charge slips.

.05 For purposes of this revenue procedure, account statements prepared by a financial institution include account statements prepared by a third party that is contractually obligated to prepare account statements for the customers of the financial institution.

.06 The date in section 3.01 above does not establish the date when a taxpayer is entitled to a deduction. That date depends on the taxpayer's method of accounting. A cash basis taxpayer is entitled to a deduction for a payment by check on the date the taxpayer mails the check to the payee, provided the check is subsequently paid by the financial institution. See Rev. Rul. 80-335, 1980-2 C.B. 170.

SEC. 4. OTHER PROOF OF PAYMENT

A taxpayer has the burden of proving payment of an amount. For a taxpayer that cannot prove payment of an amount by providing a canceled check or an account statement described in section 3 of this revenue procedure, the Service will generally require other evidence of payment of an amount. For example, the combination of an invoice marked "paid," a check register or carbon copy of the check, and an account statement that shows the check number, date, and amount will generally prove payment of an amount.

SEC. 5. RECORDKEEPING FOR PURPOSES OTHER THAN PROOF OF PAYMENT

.01 Proof of payment of an amount alone does not establish that a person is entitled to a tax deduction. A taxpayer should also keep any other documents that may help prove entitlement to a tax deduction (for example, receipts, sales slips, charge slips, payment acknowledgements, check registers, and carbon copies of checks).

.02 Canceled checks often contain useful information other than proof of payment. In appropriate circumstances, Internal Revenue Service agents may ask a taxpayer or a financial institution to produce copies of canceled checks or written records of electronic funds transfers or credit card

transactions. The endorsements, date stamps, and other information that appear on these records can provide the Service with information other than whether the account holder paid an amount.