Economic and Market Insights

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How long should I keep my tax records?

Is the financial paperwork piling up at your house? Despite the inconvenience, the truth is that many financial documents require long-term safekeeping. Holding onto your basic tax records for at least three years is the norm, and some should be kept indefinitely. Doug Nelson, CPA, Commerce Tax Manager for the West Region, takes a moment to discuss the latest requirements in saving your supporting tax documentation, and a few other items you may not have considered.

Q. How long should I hold onto my tax records?

A. The length of time to hold onto tax records varies depending on the type of return you file. In most cases you should plan on keeping your income tax return and all supporting documents for a minimum of three years following the date you filed or the due date of your return (whichever is later). You should keep gift tax returns indefinitely – your executor will need them as attachments to your estate tax return.

Q. Are there any exceptions to these rules?

A. The statute of limitations goes up to six years if income is underreported by more than 25%. There is no time limit if fraud is alleged or a return is never filed. If you file a claim for a loss from worthless securities or a bad debt deduction, you should keep documents for seven years. Please note some states require a longer retention period.* However, if you have the luxury of filing space, it never hurts to save income tax returns indefinitely in case the IRS comes back in the future and alleges an understatement of income or fraud.

Q. What types of tax records do I need to keep and why?

A. Here are three categories we consider important:

1. Income tax returns. Each year's return is very handy in preparing future filings. They also are necessary to help file amended returns, for support on an audit by the IRS (or other taxing jurisdictions), or to assist survivors with the administration of your estate.

2. Government forms documenting sources of income. These items would include W-2 forms; 1099s; Schedule K-1s; Schedule C, E, and F items; etc. They assist in preparing future returns and support if audited.
3. Expenses and deductions. These records include statements on medical billings; estimated income tax payments; real estate and personal property tax payments; mortgage interest paid; charitable contributions; unreimbursed employee expenses; child care; Schedule C, E, and F items; etc.

Q. How long do I need to keep paperwork regarding my property?

A. Keep records regarding your property (i.e., home, investment property, securities, mutual funds, etc.) basis until the period of limitations expires for the year in which you dispose of the property in a taxable disposition. It is important to keep these documents because you need them in order to calculate whether you have a gain or a loss on the sale of the property, or to figure any depreciation, amortizations, or depletion deductions. This includes the cost of purchase, improvements to a home and reinvested dividends to name a few.

Q. Where is the best place to store my documents?

A. The best place to keep documents would be in a fireproof safe. You should tell one other person the password, lock combination, or location of the key in case of an emergency. With today's technology, you may also decide to scan in your documents and keep them locked in a file on a cloud service. (Keep in mind that the cloud service may go out of business.) The IRS accepts digital copies as long as they can be easily read. You can store many different years' returns on a thumb drive or a CD or DVD locked in a safe deposit box.

Q. What is the best way to dispose of tax records after the retention period has expired?

A. All paper statements should be shredded and old hard drives with personal data should be destroyed. Make sure to be careful when giving away a computer. Many organizations receiving computers have protocols for the secure destruction of confidential information stored on hard drives, so ask before you donate.

*Always consult with your CPA and professional advisor on matters involving income taxes.

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