

Record Retention & Spring Cleaning Your Files

March 2011

If you are like me, you have more documents and paperwork than filing space. Certain documents, such as tax returns, personal health records and investment statements are definite keepers ... but for how long? Are you keeping every single bill, statement, contract and receipt because you are not sure if you might need it at some point in the future? Many people are not sure how long to keep personal, financial and tax related records. As a result, documents and paperwork can quickly take over your workspace, office and home. Although there are no universal “hard and fast” rules on document retention, hopefully, this article will help to provide general guidelines on what records should be kept and for how long.

Why Keep Records? There are many reasons to keep records. In addition to tax purposes, you may need to keep records for insurance purposes or for obtaining a mortgage loan. Good records will help you identify sources of income, keep track of expenses, keep track of basis and investment in property, prepare tax returns and support items reported on your tax return.

Tax Returns/Documentation: The general rule is seven years for personal returns; however, records must be kept for a particular return until the period of limitations for that return runs out. (Note: Business Tax Returns and Financial Reports should be kept permanently - see section on Business Accounting Record below). The IRS has 3 years to audit you from the date you file your taxes; however, there are exceptions which extend this period. Some of these exceptions include:

- False Return/Willful attempt to avoid tax/No Return - Tax may be assessed at any time, without limitation
- Extension by Agreement - Assessment period defined by agreement between IRS and taxpayer.
- Tax resulting from changes in certain income or estate tax credits - No timeframe defined.
- Termination of private foundation status - Tax may be assessed at any time, without limitation.
- Substantial omission of items (generally defined as over/under reporting of income by 25%) - 6 years.

The IRS keeps copies of your returns, but it is up to you, in the event of an audit or any other types of questions, to have all of the backup information that went into the preparation of your returns.

Records connected to assets (examples: home, automobile, investment): Keep records needed to establish the basis (original costs plus additions, etc) for as long as you own the property and until the period of limitations expires for the year in which you dispose of the property in a taxable disposition. You must keep these records to figure any depreciation, amortization, or depletion deduction and to figure the gain or loss when you sell or otherwise dispose of the property.

Personal Health Records: These records should be kept indefinitely in your home file records and should include the following information: complete contact information of your personal physicians; your medical history; and your prescriptions and/or treatments prescribed.

Medical Records & Insurance: If you are able to claim medical expenses on your tax return, it is recommended that you keep the records for seven years from the end of the year in which they are claimed. For all other medical records it is recommended that you keep them for 5 years from the time you are no longer being treated for the symptoms that those records are pertaining to.

Life Insurance Policies: It is recommended that you keep life insurance policy information for the life of the policy plus three years.

Home Insurance: The minimum timeframe suggested is five years. However, if you think that you may have any issues in the future, hold for at least ten years. You should not rely on the insurance company to provide copies of your records since any burden of proof will fall to you.

Warranty Documents: Keep in mind that anytime you get rid of an appliance, computer, or anything else that had warranty documentation, you can safely destroy the papers at the same time. Otherwise, the general guideline is to dispose of a warranty at the date of expiration.

Home Repair Bills & Contracts: Generally, you should keep these records for about ten years in case you need to prove something with regard to guarantees of workmanship.

Pay Stubs: Keep your pay stubs until you receive and reconcile to your Form W-2. It is also a good idea to keep your end-of-the year pay stub that recaps the entire year and may report additional information not shown on the Form W-2.

Bank Statements: Three years is a good guideline, however, with electronic banking, most of this information can be obtained on-line. In addition, the bank has all of your records if a need for this information arises.

Credit Card Statements: These statements can often be obtained on-line or from your credit card company, and generally serve only to reflect a proof of charges. Thus, a minimum hold period of three months is acceptable.

ATM Receipts: Many people toss their ATM slips right away and others keep tons of these slips stashed away in purses, glove compartment, etc. A good idea is to record the ATM transaction in your checkbook upon execution and retain the slips until reconciled with your bank.

Stock/Bond/Mutual Fund Company Correspondence: If you have any stocks, bonds, mutual funds, etc. you are probably inundated with correspondence such as: prospectus, annual meeting notices, address confirmations, etc. You do not need to keep this information unless you plan to act on them within the next two weeks.

Pension/Retirement/Benefit Statements: In regards to your various benefit statements, you may want to keep this information indefinitely in order to determine and verify your future retirement benefits.

Utility Bills: If you are writing off your utility bills for tax purposes, you may need to keep them as tax records. However, if you can't write them off, you can keep a minimal amount of bills (last 3 months). Three months allows you to establish residency for purposes of driver's licenses, voter registration, mortgage application, etc.

Mortgage Statements & Documents: It is recommended that you keep your mortgage statements for the ownership period of the mortgaged property plus seven years. As far as other mortgage documentation goes, most of this information is probably recorded in your county records and can be accessed through county records.

Business Accounting Records: Listed below are the various financial documents that must be retained for specific time frames. The IRS publishes a comprehensive record keeping guide in Publication 583.

- Permanent records: Balance sheets, financial statements, check registers, cash disbursement and receipt records, income tax returns, payroll tax returns, sales tax returns, profit and loss statements, journal entries, general ledger, and investment records. Also, all fixed-asset records, such as your business's property register, depreciation schedules, property appraisals, and plans and blueprints, must be retained permanently.
- Seven years: Accounts payable, accounts receivables, bank statements and reconciliation, vendor invoices, petty cash records, purchase orders, expense reports, and charge and cash sales slips
- Four years: FICA/income tax withholdings
- Three years: Bank deposit slips and budgets

When in doubt, you can generally go with the ten year rule of thumb (with the exception of permanent types of records noted above). Because of the cost and logistical issues related to record retention, many taxpayers want to destroy outdated records as soon as possible; however, sometimes it makes sense and can be beneficial to hold on to important documents. A great way to reduce paper volume and filing cabinet requirements is to consider investing in an electronic scanner and maintaining an electronic records archive, which can be easily sorted and searched. This leads to an additional consideration of electronic back-up and security, as all electronic files should be periodically backed up to a secure location and should also be protected with password and other protective measures. Electronic storage may not be able to replace all paper files, but will go a long way in reducing the amount of paper that you need to maintain. Also, with the constant threat of identity theft, it is a good idea to use a paper shredder when destroying documents that you no longer need to keep.

Finally, due to varying and unique individual circumstances, it is recommended that you consult your accountant before removing and destroying any financial paperwork. Likewise, consult your attorney before cleaning out any legal paperwork.

Note: the information in this document was obtained from irs.gov, aicpa.org, picpa.org, and lifeorganizers.com.