

HOW LONG DO I HAVE TO KEEP ALL THIS TAX STUFF?

“All this paper work. When can I get rid of all these old tax returns?” Clients ask this question every year.

Under normal circumstances, the IRS looks back no more than three years. The only circumstances where we received notices for periods over three years prior is when returns had not been filed. So, let’s look at how long to keep records based on IRS guidelines and other guidelines.

ONE YEAR	Paystubs, broker statements and mortgage payments can be discarded after one year – once they have been matched to the Form W-2, Forms 1099, and Forms 1098-Mortgage Interest Statement. If the taxable items match the government filed forms, you can generally shred the backup.
AT LEAST THREE YEARS	Keep from the date you filed your return, or amended that year’s return: Government documents such as W-2s, Forms 1099 Dividend, Interest, and Capital Gains, Form 1098 Mortgage Interest Statement, cancelled checks for charitable contributions, contributions to IRA or other retirement plans, and documents for eligible withdrawals from HSA or college savings plans. If you no longer itemize due to the higher standard deduction after 2017, then those documents such as charitable contributions and mortgage interest statements, can be discarded.
FOUR YEARS	The IRS recommends keeping “employment tax records for at least four (4) years after the date the tax becomes due or paid, whichever is earlier.”
SIX YEARS	In an odd situation, “Keep records for 6 years if you do not report income that you should report, and it is more than 25% of the gross income shown on your return.” We always recommend that if income was inadvertently missed, an amended return should be filed.
SEVEN YEARS	Keep documents if you claim a loss from worthless securities or a bad debt deduction. Basically, if you had a private loan that went bad or a bad investment (normally on your brokerage statement), keep the related documents for at least seven years.
INDEFINATELY	All documents if you did not file a return. Taxpayers that don’t think they owe taxes do not file a return. If the IRS requires a return at some point in time, make sure the documents are available. We have seen this issue when taxpayers have gambling jackpots reported to the IRS and a

	return wasn't filed, as there are offsetting losses. Since the losses are not reported to the IRS, they tax the winnings. The correct information is essential to minimize or eliminate the IRS assessment.
ANOTHER ODDITY	Keep all documents if a fraudulent return is filed. Of course, this should never happen when using a Certified Public Accountant or Enrolled Agent to prepare the return. Obviously, don't file a fraudulent return.

PROPERTY RECORDS:

PROPERTY	Keep records related to real estate, investments, retirement accounts, etc. through the period of limitations above. This includes the purchase of those investments, improvements, accumulated depreciation, depletion, or amortization. They should be kept at least three years after the date of sale, disposed of at the same time as the sales documents.
EXCHANGE	Documents for property involved in a Section 1031 exchange to defer the capital gains should also be kept through the period of limitations (normally three years after the exchange)
RESIDENCE	Personal residence purchase records should be kept for three years after the sale of the residence. Keep all records for improvements (patio, blinds, solar, energy efficient windows, etc.) that may add to the cost basis of the property to minimize capital gains for the same period.
INHERITANCE	Inherited property is valued as fair market value at date of death. Keep copies of appraisals and stock prices to support those values for three years after the property is sold.

It is time to clean out the clutter. You do not need to keep the past thirty years of returns, only what the IRS requests for retention. Due to the sensitive nature of the personal information, please make sure the documents are shredded or otherwise disposed of properly

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