

Tax Record Retention Tips

- **Income Tax Returns and Related Items:** Keep all federal and state income tax returns and supporting documents (i.e., those items confirming your income and/or deductions) for a minimum of three years after the return's filing date. The more prudent route is to keep these returns and documents for six years. Why? The IRS can assess additional taxes within three years of its filing date, but has up to six years in which to make a tax assessment if the IRS determines that a substantial amount of income has been omitted from the return.
- **Payroll Tax Returns:** Keep all records related to employment taxes for at least four years.
- **Mailing Receipts:** Keep with your file copy of each tax return the U.S. Postal Service receipt -- i.e., the registered mail receipt -- showing the date the return was mailed. If your return is filed electronically, keep a copy of the electronic filing confirmation with a printed copy of the return. In the event the return is misplaced or lost, this documentation will save you from penalties.
- **Residential Property Records:** Because you can exclude up to \$250,000 of gain from the sale of your primary residence (\$500,000 if married filing a joint return) keep settlement records from all of your home purchases and sales in a safe place. In addition, keep records of the amounts that you spend for home improvements with this file. These records will provide documentation of your basis in the house if and when it comes time to compute your taxable gain.
- **Stock and Bond Records:** Keep records of your investment (e.g., stock, mutual funds, and bonds) purchases. Besides providing you with a date for determining the type of gain -- long term versus short term -- these records establish your basis in the investment and help to compute the gain/loss when you sell. In addition, keep records that show a return of capital on your investments.
- **Depreciation Records:** For any rental real estate or depreciable business property that you own, keep records of the property's cost, the purchase date, the method used to calculate depreciation, and a schedule of all depreciation claimed on the property in previous years. Maintain these records until you sell or dispose of the property. Once you sell the property, keep these records with the tax return on which you report the sale.
- **Personal Records:** Keep a permanent file of personal records -- such as divorce agreements, copies of estate and gift tax returns under which you received property, etc. -- since they can provide a basis for determining your tax liability when you dispose of the property.
- **Other Records:** There are other situations in which you will benefit from keeping records. For example, if you have made nondeductible contributions to an IRA, maintaining records of these contributions will facilitate proving your tax liability when funds are withdrawn from the IRA.