

Storing tax records: How long is long enough?

Federal law requires you to maintain copies of your tax returns and supporting documents for three years. This is called the "three-year law" and leads many people to believe they're safe provided they retain their documents for this period of time.

However, if the IRS believes you have significantly underreported your income (by 25 percent or more), or believes there may be indication of fraud; it may go back seven years in an audit. To be safe, use the following guidelines.

Create a Backup Set of Records and Store Them Electronically.

Keeping a backup set of records -- including, for example, bank statements, tax returns, insurance policies, etc. -- is easier than ever now that many financial institutions provide statements and documents electronically, and much financial information is available on the Internet.

Even if the original records are provided only on paper, they can be scanned and converted to a digital format. Once the documents are in electronic form, taxpayers can download them to a backup storage device, such as an external hard drive, or burn them onto a CD or DVD (don't forget to label it).

You might also consider online backup, which is the only way to ensure that data is fully protected. With online backup, files are stored elsewhere so that documents remain safe.

Record Retention

Page -2-

Business Documents To Keep For One Year

- Correspondence with Customers and Vendors
- Duplicate Deposit Slips
- Purchase Orders
- Receiving Sheets
- Requisitions
- Stenographer's Notebooks
- Stockroom Withdrawal Forms

Business Documents To Keep For Three Years

- Employee Personnel Records (after termination)
- Employment Applications
- Expired Insurance Policies
- General Correspondence
- Internal Audit Reports
- Internal Reports
- Petty Cash Vouchers
- Physical Inventory Tags
- Savings Bond Registration Records of Employees
- Time Cards For Hourly Employees

Record Retention

Page -3-

Business Documents To Keep For Seven Years

- Accident Reports, Claims
- Accounts Payable Ledgers and Schedules
- Accounts Receivable Ledgers and Schedules
- Bank Statements and Reconciliations
- Cancelled Checks
- Cancelled Stock and Bond Certificates
- Employment Tax Records
- Expense Analysis and Expense Distribution Schedules
- Expired Contracts, Leases
- Expired Option Records
- Inventories of Products, Materials, Supplies
- Invoices to Customers
- Notes Receivable Ledgers, Schedules
- Payroll Records and Summaries, including payment to pensioners
- Plant Cost Ledgers
- Purchasing Department Copies of Purchase Orders
- Sales Records
- Subsidiary Ledgers
- Time Books
- Travel and Entertainment Records
- Vouchers for Payments to Vendors, Employees, etc.
- Voucher Register, Schedules

Record Retention

Page -4-

Business Records To Keep Forever

While federal guidelines do not require you to keep tax records "forever," in many cases there will be other reasons you'll want to retain these documents indefinitely.

- Audit Reports from CPAs/Accountants
- Cancelled Checks for Important Payments (especially tax payments)
- Cash Books, Charts of Accounts
- Contracts, Leases Currently in Effect
- Corporate Documents (incorporation, charter, by-laws, etc.)
- Documents substantiating fixed asset additions
- Deeds
- Depreciation Schedules
- Financial Statements (Year End)
- General and Private Ledgers, Year End Trial Balances
- Insurance Records, Current Accident Reports, Claims, Policies
- Investment Trade Confirmations
- IRS Revenue Agents' Reports
- Journals
- Legal Records, Correspondence and Other Important Matters
- Minute Books of Directors and Stockholders
- Mortgages, Bills of Sale
- Property Appraisals by Outside Appraisers
- Property Records
- Retirement and Pension Records
- Tax Returns and Worksheets
- Trademark and Patent Registrations

Record Retention

Page -5-

Personal Documents To Keep For One Year

- Paycheck Stubs (reconcile with W-2)
- Monthly and quarterly mutual fund and retirement contribution statements (reconcile with year end statement)

Personal Documents To Keep For Three Years

- Medical Bills (in case of insurance disputes) (7 years if claimed on tax return)
- Utility Records
- Expired Insurance Policies

Personal Documents To Keep For Seven Years

- Supporting Documents For Tax Returns
- Bank Statements and Canceled Checks
- Credit Card Statements and Related Receipts
- Accident Reports and Claims
- Medical Bills (if tax-related)
- Property Records / Improvement Receipts
- Sales Receipts
- Wage Garnishments
- Other Tax-Related Bills

Record Retention

Page -6-

Personal Records To Keep Forever

- CPA Audit Reports
- Legal Records
- Important Correspondence
- Income Tax Returns
- Income Tax Payment Checks
- Investment Trade Confirmations
- Retirement and Pension Records

Special Circumstances

- Car Records (keep until the car is sold) (if claimed on a tax return, 7 years beyond selling)
- Mortgages / Deeds / Leases (keep 7 years beyond the end of agreement)
- Property Records / improvement receipts (7 years beyond selling)
- Sales Receipts (keep for life of the warranty)
- Stock and Bond Records (keep for 7 years beyond selling)
- Warranties and Instructions (keep for the life of the product)
- Other Bills (keep until payment is verified on the next bill)
- Depreciation Schedules and Other Capital Asset Records (keep for 3 years after the tax life of the asset)