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# KEEP, TOSS, SHRED OR SCAN: AN UPDATED GUIDE TO RECORD RETENTION

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# WELCOME

**Thanks for downloading *Keep, Toss, Shred or Scan: An Updated Guide to Record Retention***

Record retention is one of the most important actions everyone should take, but few do properly. This Ebook will outline tax documents, common personal documents and their suggested retention schedules.

We understand that record retention can be confusing - what to keep and for how long, the variables of documentation, the advances of technology and ability to scan and store documents in the cloud, not to mention the threat of safety and security with online storage.

To get started, we wanted to take a step back and begin with the basics. Inside, you will find information that is most impactful first – record retention as it pertains to taxation. We have also included record information for non-tax items, property information, and an at-a-glance for many of the common documents in your home.

Following this Ebook, you will better understand which documents you can safely keep, store or shred and more so, what best practices you can adopt right now for the utmost security of your personal information within those records.

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# GETTING STARTED

## *Record Retention and the Burden of Proof –*

## *Why it is important*

The responsibility to prove income, deductions, basis and other items reported on your tax returns is known as the burden of proof.

You must be able to prove (substantiate) certain elements of expenses to deduct them. Generally, taxpayers meet their burden of proof by having the information and receipts (where needed) for the expenses. You should keep adequate records to prove your expenses or have sufficient evidence that will support your own statement. You generally must have documentary evidence, such as receipts, canceled checks, or bills, to support your expenses. Additional evidence is required for travel, entertainment, gifts, and auto expenses. The table on page 13 further breaks down these areas.

The information that follows reflects the periods of limitations that apply to income tax returns. Unless otherwise stated, the years refer to the period after the later of when the return was filed and its original due date. Returns filed before the due date are treated as filed on the due date.

The period of limitations is the period of time in which you can amend your tax return to claim a credit or refund, or the IRS can assess additional tax.

**Keep copies of your filed tax returns permanently. They can help in preparing future tax returns and are essential if you need to file an amended return.**

# UNDERSTANDING THE PERIOD OF LIMITATIONS THAT APPLY TO INCOME TAX RETURNS

1. **Keep records for three years if situations (4), (5), and (6) below do not apply to you.** If your return includes a claim for credit or refund if your return includes a claim, you'll need to keep your records for three years from the date you filed or two years from the date you paid the tax, whichever is later.

2. **Keep records for seven years if** you file a claim for a loss from worthless securities or bad debt deduction.

3. **Keep records for six years** if you failed to report income that you should report, and the omitted income is more than 25% of the gross income shown on your return. If you don't report all of the income that you should report (generally, if you omit more than 25% of the gross income shown on your return), the statute of limitations is extended: you'll need to keep those records for at least six years. You may also want to get a better tax professional.

4. **Keep records indefinitely if** you do not file a return or if you file a fraudulent return If you file a clearly fraudulent return or if you don't file a return at all, the statute of limitations never actually runs. That means that there is no time limit on IRS action. In that event, you'll want to hold onto your records forever. (We have helped clients get back on their financial footing and make right with the IRS. If this is your situation, call us—we can help).

5. **If you are a business owner,** keep employment tax records for at least four years after the date that the tax becomes due or is paid, whichever is later.

6. **Don't forget about ACA requirements.** Beginning with the 2014 tax year (the return you filed in 2015), you'll need to keep records of minimum essential health insurance coverage or proof that you qualified for an exemption or premium tax credit (especially if you had to pay it back). Keep these records with your return, on the same retention schedule.

7. **If you make nondeductible contributions to a traditional IRA,** hold onto those records until you make a complete withdrawal/distribution: you don't want to pay tax on those twice. But don't stop there. As a rule of thumb, you should hold onto all IRA records – including Roth contributions – until you withdraw all of the money from the account.


8. **If you claim depreciation, amortization, or depletion deductions,** you'll want to keep related records for as long as you own the underlying property. That includes deeds, titles and cost basis records.

9. **If you claim special deductions and credits,** you may need to keep your records longer than normal (for example, if you file a claim for a loss from worthless securities or bad debt deduction, you should keep those records for seven years).

10. **If you have employees, including household employees,** keep your employment tax records for at least four years after the date that payroll taxes become due or is paid, whichever is later. This should include forms W-2 and W-4, as well as related pay information including benefit forms.

11. **If you claim any other special tax benefits** not mentioned above (for example, the first time homeowner's credit), a good rule of thumb is to keep your records for as long as the tax benefit runs plus three years.

12. **If you are in a partnership or an S corporation shareholder,** the statute of limitations is generally controlled by the date of your individual return.

13. **If you file an amended return,** it does not extend the statute of limitations for your original return. The clock doesn't restart for the portion of the return you are not amending. The original date determines the statute of limitations (some exceptions apply if you file within 60 days of the assessment window).

14. **You will want to keep supporting documentation** for as long as the statute of limitations runs. Supporting documentation for your tax returns includes not only your forms W-2 and 1099 but also, bills, credit card and other receipts, invoices, mileage logs, canceled, imaged or substitute checks, proofs of payment, and any other records to support deductions or credits you claim on your return.

## Keep it or Toss it? Property

Keep records relating to property until the period of limitations expires for the year in which you dispose of the property. 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.

- If you received property in a  tax-free exchange, your basis in that property is the same as the basis of the property you gave up, increased by any money you paid. You must keep the records on the old property, as well as on the new property, until the period of limitations expires for the year in which you dispose of the new property.
- If you own property that will result in a taxable event at sale or disposition (like stocks,bonds or your home), you'll need to keep records which support your related tax consequences (capital gains, etc.) until the disposition of the property plus three years. That means, for example, that you should keep records related to your home, including home improvements, for as long as you own the house. Remember, you're entitled to exclude up to $250,000 of gain on the sale of your home ($500,000 if married filing jointly) – so keep excellent records of the cost of the home as well as any improvements or other adjustments to basis.
- If you receive property as the result of a gift or inheritance, you'll want to keep records that support your basis in that property. Generally, if you inherit property, your basis is the stepped up value as of the date of death; if you receive a gift, your basis is the same as the donor's basis. Don't toss those old records just because you're the new owner of the assets.

## Keep it or Toss it? – Charitable Deductions

If you have charitable deductions, then you must keep records that show details of the following elements:

| Amount | Substantiation |
|---|---|
| Less than $250 | In writing by receipt, cancelled check or by pay stub for P/R deduction |
| More than $250 | As above, plus contemporaneous written acknowledgment of cash amount or description of goods donated, and statement of goods or services received in exchange. Manner of acquisition and cost basis. |
| More than $5,000 | As above, and needs written appraisal. |

## Keep it or Toss it? - Nontax Purposes

When your records are no longer needed for tax purposes, do not discard them until you check to see if you have to keep them longer for other purposes. For example, your insurance company or creditors may require you to keep them longer than the IRS does.


*What to toss:*

- Duplicates of receipts.
- Records that are unrelated to deductions and credits not claimed. One of the biggest offenders? Medical receipts when you don't actually claim the medical expenses deduction. You don't need to keep those receipts for tax purposes (you may need them for other personal reasons, however, so don't make everything about tax).
- Old tax returns. Some tax professionals recommend that you never throw out your old tax returns – even when the statute of limitations has already run – as proof that you have filed. Have a discussion with your tax professional to assess if your situation necessitates keeping returns longer than the suggested retention period. (We offer a complimentary consultation – call us!).
- Paycheck stubs. Check your paycheck stubs against your year-end statements, including you form W-2 and your annual Social Security statement. Make sure that they properly reflect your income, pre-tax deductions, employee benefits, and the like. Once you've confirmed that they're correct, you don't need to save the stubs.
- Old records. If the statute of limitations has run, you can usually destroy tax-related records keeping in mind the guidelines as outlined above.

**Keep in mind, if records aren't needed for tax reasons, you may need them for other reasons. Make sure that you check with your mortgage company and tax professional before tossing important records.**

## Toss it or Shred it?

| | | |
|---|---|---|
| **Tax information & returns** | There is a general three year statute of limitation for your taxes. This means the IRS has three years from when you file your return to start an audit. (There is no limit for fraudulent returns). Therefore, you need to keep documents that support items on your tax returns for those three years. Each year you can throw out the four year old documents, but you should keep copies of tax returns forever. | Shred |
| **Investment records & statements** | Investment records must be kept to support your tax returns. Documentation of purchases and sales (either confirmations or brokerage statements including the information) must be kept for three years past when you report the sale on your tax return. You may find it helpful to keep brokerage statements for many years. | Shred |
| **Bank statements & canceled checks** | Some people keep every canceled check and others toss most of them. Certainly you should keep canceled checks that support any tax deductions and any that you think may come in handy. Otherwise, canceled checks can take up a lot of space. Bank statements are a bit different. You may want to keep them for some period (three years or so) so you can document your payments for important items. Together with your checkbook register, you would be able to identify when and how much you paid for almost anything. | Shred |
| **Paycheck stubs** | These documents can include very important information including Social Security number and financial institution account numbers if you use direct deposit. You may need to have the last three month's stubs if you are planning to apply for a loan. Otherwise, you should only keep the latest stub. | Shred. And, shred again, especially if your full social security number appears on the statement. |
| **ATM receipts** | Keep ATM receipts until you have compared them with your bank statement. Then dispose of them carefully. | Shred. And, shred again, especially if your full bank account number appears on the statement. |

| | | |
|---|---|---|
| **Credit card statements** | Keep receipts until you have compared them to your credit card statement. However, if the receipt is for something that you may want to return, keep it longer. | Shred. And, shred again, especially if your full credit card number appears on the statement. |
| **Utility bills and other household receipts** | Unless you are claiming household expenses as tax deductions, there is no need to keep these types of records very long. You can always use a canceled check to document payment. | Likely safe to toss in the trash |
| **Credit card receipts** | Keep receipts until you have compared them to your credit card statement. However, if the receipt is for something that you may want to return, keep it longer. | Probably shred |
| **Warranties** | Keep warranties for as long as you own the item or until the warranty period expires. | Likely safe to toss in the trash |
| **Insurance** | Insurance policies and claims information should be kept for as long as the policy remains in effect. | Shred |
| **Home financial information** | Deeds, mortgages and information on home improvements should be kept for as long as you own the home plus the three year period for tax purposes. | Shred |
| **Personal documents and pictures** | Shred anything containing sensitive information and private pictures. | This is a personal choice. Investing in the most basic at-home shredding device will offer a bit more protection than none. |

**Older technology that you may have forgotten about:**

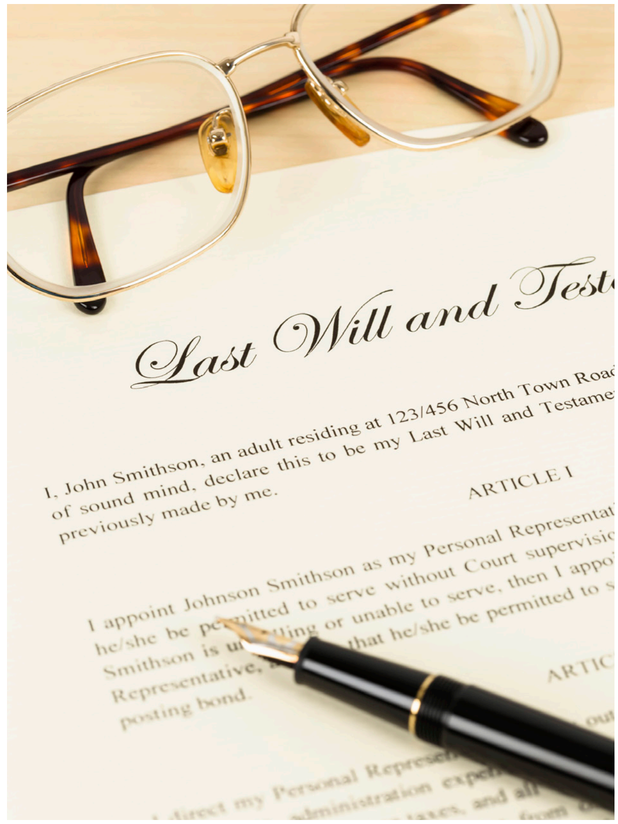
*Electronic Data Files with Personal Information*

Floppy diskettes and CDs should be shredded, destroyed or made unusable in some manner. Computer hard drives deserve special attention. Hard drives may have information on finances, taxes, user names, passwords and other information that should not fall into the hands of fraudsters. Deleting files and formatting a hard drive does not permanently remove the files from the system. Before disposing, recycling or donating a PC, the hard drive should be removed and physically destroyed.

## Keep it – FOREVER!

Documents to keep forever include:

- Wills
- Powers of Attorney
- Birth Certificates
- Marriage Documents
- Divorce or child care orders
- Trust documents
- Business agreements
- Military records and other such permanent records
- Tax returns



## Safe. Secure. Offsite.

***Why a safe deposit box is your new best friend.***

A safe deposit box - usually located inside a bank - is used to store valuables. A safe deposit box is rented from the institution and can be accessed with keys, pin numbers or some other security passwords. Customers rely on the security of the building to protect the valuables placed inside. Keep in mind, only YOU can access your safe deposit box or those who you designate to be accompanied with you.

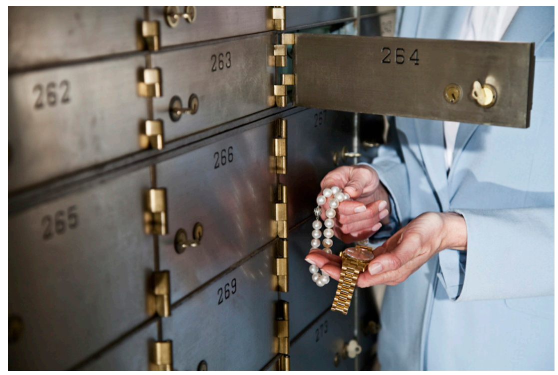
Safe deposit boxes are the best places to keep items that are valuable. This includes jewelry, cash, stamp and coin collections and negotiable instruments like stock certificates and bonds. They are also good places to keep items that are not replaceable or that have sentimental value. A household inventory (videotaped or written), appraisals, listings of insurance policies, and credit card numbers should also be kept in a safe deposit box. Keep in mind, you do not want to put items that you need very frequently or at a moments notice.

**Examples of items of value:**

- Valuable coin and stamp collections
- Negotiable investment instruments like bonds, stock certificates
- Jewelry

**Examples of items that are not easily replaced:**

- Family heirlooms, photos, or historical records that cannot be replaced
- Adoption papers
- Birth certificates
- Citizenship papers
- Military documents
- Divorce papers



## Safe. Secure. At Home.

**What not to keep in your safe deposit box**

It is important to remember that only you can open your safe deposit box without a court order. Items that others may need to obtain if you are not present should not be kept in your box. Use your safe deposit box regularly and keep a list of what it contains.

**Original wills, powers of attorney, living trust documents, and other trust documents should not be in your safe deposit box. Insurance policies should usually be available and not kept in the box.**

**What to keep in your in-home firebox**

Items that should be safe but readily available:

- Vital back up data files from your PC, stored on a jump drive
- Passports
- Important contracts and business agreements
- Real estate deeds and mortgages
- Confidential records
- Copies of important financial records that you keep at home
- Copies of wills, living trust documents, powers of attorneys

## Proof of Business Expenses

IF you have expenses for:
THEN you must keep records that show details of the following elements:

| | Amount | Time | Place or Description | Business Purpose and Business Relationship |
|---|---|---|---|---|
| **Travel** | Cost of each separate expense for travel, lodging and meals. Incidental expenses may be totaled in reasonable categories such as taxis, daily meals for traveler, etc. | Dates you left and returned for each trip and number of days spent on business | Destination or area of your travel (name of city, town, or other designation). | ***Purpose:*** Business purpose for the expense of the business benefit gained or expected to be gained. ***Relationship:*** N/A |
| **Entertainment** | Cost of each separate expense. Incidental expense such as taxis, telephones, etc., may be totaled on a daily basis. | Date of entertainment. (Also see Business Purpose.) | Name and address of location of place of entertainment. Type of entertainment if not otherwise apparent. (Also see Business Purpose.) | ***Purpose:*** Business purpose for the expense of the business benefit gained or expected to be gained. For entertainment, the nature of the business discussion or activity. If the entertainment was directly before or after a business discussion: the date, place, nature, and duration of the business discussion and the identities of the persons who took part in both the business discussion and the entertainment activity. ***Relationship:*** Occupations or other information (such as names, titles, or other designations) about the recipients that shows their business relationship to you. For entertainment, you must also prove that you or your employee was present if the entertainment was a business meal. |
| **Transportation** | Cost of each separate expense. For car expense, the cost of the car and any improvement, the date you started using it for business, the mileage for each business use and the total miles for the year. | Date of the expense. For car expense, the date of the use of the car. | Your business destination. | ***Purpose:*** Business purpose for the expense. ***Relationship:*** N/A |

## Records at-a-Glance

| INDIVIDUAL RECORDS | SUGGESTED RETENTION PERIOD |
|---|---|
| Tax Return Copies | Permanently |
| Forms W2 Received | Permanently |
| Medical Receipts | 7 years |
| Forms 1099 Received | 7 years |
| Certificates of Deposit Statements | 7 years |
| Insurance Policies – Other | 7 years |
| Major Purchase Receipts | 7 years |
| Loan Records / Forms 1098 | 7 years following, termination, disposition or payoff |
| Annuity Year End Statements | 7 years following, termination, disposition or payoff |
| Insurance Policies – Life | Permanently |
| House Records (cancelled checks for purchase of major improvements and maintenance) | Permanently |
| Birth and Death Certificates | Permanently |
| Medical Records | Permanently |
| Wills | Permanently |
| Trust Agreements | Permanently |
| Detailed List of Financial Assets Held | Permanently |
| Alimony, Custody or Prenuptial Agreements | Permanently |
| Military Papers | Permanently |
| Photos or Videotape of Valuables | Permanently |
| **TAXATION RECORDS** | **SUGGESTED RETENTION PERIOD** |
| Tax Free Reorganization | Permanently |
| Canceled Checks - Tax Payments | Permanently |
| Correspondence - Tax | Permanently |
| Depreciation Schedules | Permanently |
| Income Tax Returns | Permanently |
| Inventory Reports | Permanently |
| Payroll Tax Returns | Permanently |
| Revenue Agent Reports | Permanently |
| Sales Tax Returns | Permanently |
| Transfer Pricing | 4 years |
| FUTA/FICA/Income Tax Withholding | 4 years |
| 338 Election | 7 years |

# FINAL THOUGHTS

The content in this Ebook is a compilation of trusted sources, including the basic IRS Regulation - 26 CFR 1.6001-1, The Guide of Record Retention Requirements in the Code of Federal Regulations, information culled from cpa.net; IRS.gov; and the AICPA.

While we strive to bring you only the most accurate and up-to-date information, we recommended that prior to permanently destroying any records, especially tax-related documents, you consult with one our CPAs for assurance.

The suggested retention periods shown are not offered as final authority, but only as a guide. Generally, you must keep your records that support an item of income, deduction or credit shown on your tax return until the period of limitations for that tax return runs out.

Knowing what to keep, toss or shred can be confusing and daunting. Being financially empowered begins with smart records and safe recordkeeping.

Our practitioners have advised countless clients to help prepare their foundation of record keeping. If are ready to get your financial house in order, need help untangling years of records or are just beginning the process, contact us at 216.831.0733 or info@zinnerco.com.

We're ready to start the conversation.

# A BIT ABOUT US...

Visit zinner.com/publications to download any of our other free Ebooks
In 1938, Harry Zinner had a vision for long term success. He founded a Cleveland-based bookkeeping firm that focused on integrity, commitment and a pledge to help individuals, not-for-profit organizations and closely-held companies grow and prosper, not just for today, but for decades to follow.

Today, Zinner & Co. provides tax, accounting and management advisory services to guide businesses from startup to succession planning and help individuals create a solid financial foundation.

Our Beachwood, Ohio office is home to a dedicated team of CPAs and management advisors that provide a full slate of services beyond traditional tax and accounting. Contact us to discover how we can help you achieve your greatest financial potential.

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