

* Investment Records

Year-end brokerage statements from the purchase of stocks, bonds, and mutual funds should be retained until 3 years after the investment is sold. These statements will show the reinvestment of dividends, the purchase of shares, and the redemption of shares.

* IRA Contribution and Distribution Records

IRA contribution and distribution records need to be kept indefinitely. Particularly important are records of nondeductible contributions.

* Gifts

If you have received gifts of property other than cash, it is important to find out what the cost to the donor was and obtain receipts to verify the costs. This becomes your cost in the property for future sales consequences.

* Inheritances

If you inherit property, you need to keep records that establish the value on the date of death. These records usually come from the fiduciary's records and should be retained for 3 years after the property is sold.

SUMMARY

While the most common statute of limitations is 3 years from the filing of the return, a return that was never filed has no statute of limitations. The statute of limitations for returns where income has been understated by 25% or more is ten years.

Saving tax records for a minimum of 3 years is essential. Saving the tax returns for an indefinite period may provide good historical information in addition to providing substantiation.

What Tax Records Should I Save?



110 Vista Way
Kennewick, WA 99336
(509) 736-2400
bculver@taxcenterplus.com

WHY SAVE RECORDS?

Once the tax return has been filed, everything is finished and there is no need to use these records again, right? Unfortunately, **that perception is very dangerous.** There are many reasons for saving records. The main reason to save tax records is to substantiate the numbers on the tax return.

The statute of limitations for most federal tax returns is 3 years. This statute of limitations is very general guideline to follow. It is helpful, and even required in some cases, to save certain records even longer.

HOW LONG SHOULD DIFFERENT KINDS OF TAX RECORDS BE KEPT?

*Old Income Tax Returns

Income tax returns should be kept for a minimum of 3 years, unless the state requires a longer period. Keeping a tax return longer is advisable when the reported transactions may affect future years.

*Tax Receipts

Most audits occur within 3 years of the filing of the tax return. The receipts used to document expenses should be kept through the statute of limitations for that return. After that period has expired, the receipts should be examined to see if they fall into

the areas that need to be saved for a longer period. The receipts that do not need to be kept longer, such as canceled checks, bank statements, and receipts which will not affect future transactions, can be discarded.

*Business Records

If you own a business, you may have records for the sale or purchase of inventory and assets used in the business as well as other operating expenses. After the statute of limitations, you can discard most receipts that relate to property you still own to verify the cost for future sales. Payroll records must be retained for a minimum of 4 years.

When your business produces an overall loss on the tax return, this loss is either carried backward or forward depending on the situation. The tax return and the records of the calculation creating the carryover, and the tax return for any year in which part of the carryover loss is absorbed, should be retained for 3 years following the year the loss is finally used.

*Employee Business Expenses

The most common employee business expenses are transportation and travel expenses. The mileage logs, motel and meal receipts should be saved for the 3 year limitation period. If you are a trucker who claims the standard meal allowance, the log book should be retained for the same period.

*Closing Papers from the Sale of Your Home

The closing papers from the purchase or sale of a home should be retained for a minimum of 3 years after the sale of the home. If the sale involved the deferral of gain, the closing papers and the tax return from the sale should be retained through the limitation period of the last home sold.

*Building or Improving Your Home

If you build your own home, careful records should be kept of all the expenditures, including the monies paid to outside contractors. These should be kept for at least 3 years after the sale of the home.

