

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 six years in an audit. To be safe, use the following guidelines.

Business Records to Keep...	Personal Records to Keep...
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1 Year	1 Year
3 Years	3 Years
6 Years	6 Years
Forever	Forever

Special Circumstances

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 in another region of the country, so that if a hurricane or other natural disaster occurs, documents remain safe.

Caution: Identity theft is a serious threat in today's world, and it is important to take every precaution to avoid it. After it is no longer necessary to retain your tax records, financial statements, or any other documents with your personal information, you should dispose of these records by shredding them and not disposing of them by merely throwing them away in the trash.

Business Documents to Keep for One Year

Correspondence with Customers and Vendors

Duplicate Deposit Slips

Purchase Orders (other than Purchasing Department copy)

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

Timecards For Hourly Employees

Business Documents to Keep for Six 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

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

Personal Documents to Keep for One Year

Bank Statements

Paycheck Stubs (reconcile with W-2)

Canceled checks

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

Personal Documents to Keep for Three Years

Credit Card Statements

Medical Bills (in case of insurance disputes)

Utility Records

Expired Insurance Policies

Personal Documents to Keep for Six Years

Supporting Documents for Tax Returns

Accident Reports and Claims

Medical Bills (if tax-related)

Property Records / Improvement Receipts

Sales Receipts

Wage Garnishments

Other Tax-Related Bills

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)

Credit Card Receipts (keep with your credit card statement)

Insurance Policies (keep for the life of the policy)

Mortgages / Deeds / Leases (keep 6 years beyond the agreement)

Pay Stubs (keep until reconciled with your W-2)

Property Records / improvement receipts (keep until property sold)

Sales Receipts (keep for life of the warranty)

Stock and Bond Records (keep for 6 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)