

Spring Cleaning Your Tax Records

What should you keep? What can you toss? How should you store information? These and other questions about recordkeeping perennially arise around tax time. Here are some guidelines to help you keep only what you need.

Why keep records?

You should retain certain information—receipts, diaries, acknowledgments from charities, canceled checks—in case the IRS audits your return. Having this information will help you prove entitlement to deductions, credits, and other tax positions taken on your return. Without this information, you may lose out on deductions to which you are otherwise entitled.

How long to keep records?

Because the IRS generally has 3 years from the due date of your return (or the filing date if later) to audit you, it's a good idea to keep all records related to the return for at least 3 years. However, the IRS has 6 years to act if you omit more than 25% of your gross income. And there's an unlimited period for IRS audits if you don't file any return.

Once the audit period is over, you may still want to keep a copy of the return along with proof of filing (e.g., IRS acknowledgment for an e-filed return) forever. You no longer need supporting documentation, but you'll want the return to prove you filed it just in case the IRS questions this fact.

You'll also want to keep records related to asset purchases and improvements for the period you own the asset, plus the audit period. Thus, keep records of improvements to your home for as long as you own the home, plus the audit period following the year of sale.

When it comes to records related to the basis of securities, you may no longer need to keep records. Starting in 2011, brokerage firms had to track the basis of stock purchases. Starting in 2012, this obligation extends to mutual funds. Thus, going forward, if you acquired securities in 2011 or later, you may not need to keep confirmation statements or other records showing basis; the brokerage firm or mutual fund will do it for you.

How to keep records?

You can, of course, keep paper receipts and other paper documents for tax purposes. However, you might want to use technology to simplify recordkeeping. For example, consider an app to scan tax receipts and then store them with tax records on your computer. Electronic recordkeeping is acceptable as long as you don't tamper with them.