

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.

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.

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)