“How Long Should I Keep Tax Records?”

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In most cases, you should plan on keeping tax returns along with any supporting documents for a period of *at least* three years following the date you filed or the due date of your tax return, whichever is later. So for example, if you filed your 2015 tax return on February 1, 2016, you should have kept the return and supporting documents until at least April 15, 2017.

What tax records should I keep?

You should keep every tax return and supporting forms. This includes W-2s, 1099s, expense tracking, mileage logs if you itemize and other documents.

So why is keeping tax returns for three years important?

Keeping tax returns for the three-year time period is tied to the IRS statute of limitations. Under the statute, if you do not file a claim for a refund that you are entitled to, you generally have the later of three years from the date you filed the original return or two years from the date you paid the tax, to file the claim. Likewise, the IRS generally has only three years from the filing date or due date of the return (whichever is later) to assess an additional tax if you did not accurately report your income.

Are there any exceptions to the three year rule?

In some cases, you may need to hang onto your records longer than three years. For instance, you should plan on keeping tax forms for retirement accounts such as IRAs until seven years after the account is completely wiped out. If you file a claim for a loss of worthless securities or bad debt deduction, you must keep records for seven years. Additionally, if you amortize, depreciate, or buy or sell property, you should keep property records until the statute of limitations expires for the year in which you dispose of the property. Remember, property isn’t just land or buildings; it includes stock, office equipment and other assets.

It’s also important to note that in some cases the statute of limitations is longer than three years. For instance, if you omit more than 25% of your gross income from your return, the IRS has six years instead of three to assess an additional tax. Also, if you file a fraudulent return or don’t file one at all (we don’t recommend either!), the statute of limitations *never* expires.

What about when it’s time to get rid of my tax documents?

Before getting too excited and throwing your old returns away, check to make sure you do not need to keep it for other purposes. For instance, certain creditors and even some insurance companies may require you to keep records longer than the IRS does. If you do decide to get rid of tax documents, make sure to shred them. Tax returns contain sensitive information that identity thieves love.

If I want to keep them, what is the best way to store my documents?

The best way to store hard copies of tax documents is in a fire-proof safe. Along with your tax records you can keep other important documents like the deed to your house, mortgage and insurance information, your Will or Trust documents, and passwords to bank and brokerage accounts. It’s also a good idea to tell one other person where you keep the key to the safe (e.g., a spouse or other trusted family member). This way, if an emergency arises, that individual will know how to access any documents they may need to keep your affairs in order.

Finally, if you plan on keeping your records for a long time consider scanning your documents and keeping a backup of the files on a cloud service like Dropbox. The IRS accepts digital copies of documents as long as they are legible. This method takes up far less space and is easier to organize than a stack of papers.

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