

Keep Supporting Records Until the Statute of Limitations Runs Out

It's probably a good thing that the April 15th deadline and the urge to spring clean fall at the same time. It feels good to throw out some of the financial records being stuffed into your file cabinets. But make sure you're not disposing of any records you may need, before you decide to head to the trash can. You don't want to be caught empty-handed if an IRS auditor contacts you.

In general, you need to keep records that support items shown on your individual tax return until the statute of limitations runs out – generally three years from the due date of the return, or the date you filed, whichever is later. In most cases, the IRS can audit your return for three years. You can also file an amended return on Form 1040X during this time period if you missed a deduction, overlooked a credit or misreported your income.

So, does that mean you're safe from an audit after three years? Not necessarily. There are exceptions:

- If the IRS has reason to believe your income was understated by 25 percent or more, the statute of limitations for an audit increases to six years.
- If there is suspicion of fraud or you don't file a tax return at all, there is no time limit for the IRS.

How Long to Keep Documents. Like anything involving the IRS or other government agencies, there's no easy way to answer that question. But here are some basic guidelines to follow for individuals:

Completed tax returns. Many tax advisers recommend that you hold onto copies of your finished tax returns forever. Why? So you can prove to the IRS that you actually filed. Even if you don't keep the returns indefinitely, you should hang onto them for at least six years after they are due or filed, whichever is later.

Backup records. Any written evidence that supports figures on your tax return, such as receipts, expense logs, bank notices and sales records, should generally be kept for at least the three year period.

Exceptions. There are some cases where taxpayers get more than the usual three years to file an amended return. You have up to seven years to take deductions for bad debts or worthless securities, so don't toss out records that could result in refund claims for those items.

Real estate records. Keep these for as long as you own the property, plus three years after you dispose of it and report the transaction on your tax return. Throughout ownership, keep records of the purchase, as well as receipts for home improvements, relevant insurance claims, and documents relating to refinancing.

Securities. To accurately report taxable events involving stocks and bonds, you must maintain detailed records of purchases and sales. These records should include dates, quantities, prices, dividend reinvestment, and investment expenses, such as broker fees. Keep these records for as long as you own the investments, plus the statute of limitations on the relevant tax returns.

Individual Retirement Accounts (IRAs). The IRS requires you to keep copies of Forms 8606, 5498, and 1099-R until all the money is withdrawn from your IRA accounts.

If an account is closed, treat IRA records with the same rules as securities. Don't dispose of any ownership documentation until the statute of limitations expires.

Questions?

For information regarding these topics or general questions, please call Wegner LLP, CPAs and Consultants at (608) 274-4020.