Tax Documents You Need to Keep

Clients often ask the question, "What documents should I keep and for how long?" In general, you should keep all personal tax returns along with anything that backs up what you have reported on your tax return for at least three years after the filing deadline. This includes any supporting documentation used to claim credits, deductions, or other line items on your tax return.

Keep for at least three years:

- **Receipts**
    - Keep receipts, organized by date with notes on them, explaining what they were for and how they relate to your tax return. Make sure they identify what you paid for, the dollar amount, and the date of service or purchase.
- **Bills**
    - As you organize your bills for the IRS, make sure each one reflects the name of the individual or company, the type of service the bill was for, and the date of purchase.

Keep forever:

- **Legal Papers**
    - These papers should be well-organized and relevant to credits or deductions taken on your tax return. Some examples of legal papers the IRS may request include divorce settlements, including custody agreements, and property acquisition records.
- **Loan Agreements**
    - Retain copies of your original loan documents with all of supporting information. Think of the hundreds of pages on the last closing document on a home purchase or refinance. Keep them.

According to the Internal Revenue Service, "Generally, the IRS can include returns filed within the last three years in an audit. If we identify a substantial error, we may add additional years. We usually don't go back more than the last six years".

It is worth noting that the IRS can go back six years if it suspects that the taxpayer underported gross income by more than 25%. The IRS has no statute of limitations on its ability to audit returns if fraud is suspected. If a taxpayer did not file a return for a year, the IRS will create one. Having information on income and expense might help a taxpayer in the event she was unable to file.

Keeping copies of your past returns readily available is simply prudent. Prior year returns can be scanned and password-protected and stored locally, or copied to a flash drive and secured. There is no reason not to keep an electronic version of every return you filed. Access to copies can help you prepare future returns and quickly consult an old return if you need to amend one.

In special circumstances the period of limitation on filing a claim for bad debts or worthless securities could be extended to seven years. Consider retaining brokerage records for a long time if you trade heavily in speculative holdings, penny or meme stocks. Of course, investors in Enron, Worldcom, or Silicon Valley Bank would not have described their purchases as risky, but found the value of their holdings go to zero nonetheless.

Our policy at Diamond & Associates is to keep records related to each engagement for seven years. We do not keep any original client records, so we will return those to you at the completion of our services. When records are returned to you, it is your responsibility to retain and protect your records for possible future use, including potential examination by any government or regulatory agencies.

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