

Which Financial Records to Keep — and How Long to Keep Them

You can't take everything with you, but the following are suggestions about how long you should keep business and personal records on file:

BUSINESS RECORDS

ONE YEAR

- Personnel employment applications
- Purchase orders (except purchasing department copy)
- Stenographers' notebooks
- Stockroom withdrawal forms

THREE YEARS

- Bank reconciliations
- Duplicate bank deposit slips
- Expired insurance policies
- General correspondence
- Internal audit reports and working papers
- Petty cash vouchers
- Physical inventory logs

SEVEN YEARS

- Accident reports and claims (settled cases)
- Accounts payable ledgers (computer runs)
- Accounts receivable ledgers (computer runs)
- Automobile logs
- Bank statements
- Bills of lading
- Cash books
- Commission records
- Contracts and leases (expired)
- Employee personnel records after termination
- Employment tax reports
- Expense reports
- General journals
- Inventory records
- Invoices to customers and from vendors
- Payroll records and summaries, including payment to pensioners
- Personal property tax returns
- Purchase orders
- Sales tax returns

PERMANENTLY

- Articles of incorporation
- Audit reports of public accountants
- Canceled checks for important payments such as taxes, property acquisition, etc.
- Capital stock and bond registers
- Copyrights
- Correspondence (legal and important matters only)
- Deeds and mortgages
- Depreciation schedules
- Financial statements (year-end – other months optional)
- General ledgers and year-end trial balances

- Licenses and permits
- Patents
- Property appraisals by outside appraisers
- Property records – costs, blueprints and plans
- Tax returns and worksheets, revenue agents' reports and other documents relating to determination of tax liability
- Trademark registrations

Source: Sidney Morgenbesser, CPA

PERSONAL RECORDS

TAXES

- Returns
- Canceled checks/receipts (alimony, charitable contributions, mortgage interest and retirement plan contributions)

KEEP: SEVEN YEARS

- The IRS has three years from your filing date to audit your return if it suspects good faith errors.
- The three-year deadline also applies if you discover a mistake in your return and decide to file an amended return to claim a refund.
- The IRS has six years to challenge your return if it thinks you underreported your gross income by 25 percent or more.
- There is no time limit if you failed to file your return or filed a fraudulent return.

IRA CONTRIBUTIONS

KEEP: PERMANENTLY

If you made a nondeductible contribution to an IRA, keep the records indefinitely to prove that you already paid tax on this money when the time comes to withdraw.

RETIREMENT/SAVINGS PLAN STATEMENTS

KEEP: FROM ONE YEAR TO PERMANENTLY

- Keep the quarterly statements from your 401(k) or other plans until you receive the annual summary; if everything matches up, then toss the quarterlies.
- Keep the annual summaries until you retire or close the account.

BANK RECORDS

KEEP: FROM ONE YEAR TO PERMANENTLY

- Go through your checks each year and keep those related to your taxes, business expenses, housing and mortgage payments.
- Throw away those that have no long-term importance.

BROKERAGE STATEMENTS

KEEP: UNTIL YOU SELL THE SECURITIES

- You need the purchase/sales slips from your brokerage or mutual fund to prove whether you have capital gains or losses at tax time.

BILLS

KEEP: FROM ONE YEAR TO PERMANENTLY

- Go through your bills once a year.
- In most cases, when the canceled check from a paid bill has been returned, you can get rid of the bill.
- However, bills for big purchases – such as jewelry, rugs, appliances, antiques, cars, collectibles, furniture, computers, etc. – should be kept in an insurance file for proof of their value in the event of loss or damage.

CREDIT CARD RECEIPTS AND STATEMENTS

KEEP: FROM 45 DAYS TO SEVEN YEARS

- Keep your original receipts until you get your monthly statement; toss the receipts if the two match up.
- Keep the statements for seven years if tax-related expenses are documented.

PAYCHECK STUBS

KEEP: ONE YEAR

- When you receive your annual W-2 form from your employer, make sure the information on your stubs matches.
- If it does, toss the stubs.
- If it doesn't, demand a corrected form, known as a W-2c.

HOUSE/CONDOMINIUM

KEEP: FROM SIX YEARS TO PERMANENTLY

- Keep all records documenting the purchase price and the cost of all permanent improvements – such as remodeling, additions and installations.
- Keep records of expenses incurred in selling and buying the property, such as legal fees and your real estate agent's commission, for six years after you sell your home.
- Holding on to these records is important because any improvements you make on your house, as well as expenses in selling it, are added to the original purchase price or cost basis. This adds up to a greater profit (also known as capital gains) when you sell your house. Therefore, you lower your capital gains tax. ♦

Source: Marquette National Bank and Catherine Williams, President of Consumer Credit Counseling Services of Greater Chicago