How long should you retain financial records?

Every year, taxpayers wade through piles of financial documents to find the information they need to file their taxes. But what happens to all that paperwork once you've mailed your return? How long do you have to hold on to your records in case of a tax audit or similar concern down the road? While there are few hard and fast rules, **Peter Deng & Associates,** a leading tax, accounting, and business consulting firm in twin cities to serve minority communities, advises that there are some general guidelines you can follow.

Don't tear up those tax returns

There are good reasons to hold on to your copies of your tax returns indefinitely because they contain a lot of valuable information that you may need in the future, including a record of past income, deductions or taxes paid. Supporting documents, such as cancelled checks and receipts, may also come in handy later on. Technically, the Internal Revenue Service may challenge your individual tax return up to three years after it is filed (and longer if the Service suspects tax fraud or intentional underreporting of income). Lenders may also ask for some earlier returns when you apply for a loan. As a result, your tax returns are among the documents you should consider keeping for a minimum of 10 years.

Retirement details

There's no requirement to retain your retirement plan statements or records of contributions you have made to individual retirement accounts, but they are handy records of what you have saved and can expect to receive when you retire or close the account. Keep your quarterly account summaries until you receive your annual statements, then toss the quarterly statements if the annual summaries are correct. In addition, remember that when you make a nondeductible contribution to your IRA account, your records document that you paid taxes at the time of the contribution, so you don't have to pay them later when you withdraw the money. You must report your nondeductible contribution to a traditional IRA on Form 8606 filed with your tax return. Keep a copy of each Form 8606 filed to keep track of your total basis.

Regarding receipts

Throw out ATM and credit card receipts as soon as you receive your account statement showing the transaction. However, keep receipts, credit card statements or images of cancelled checks for any big-ticket items---such as jewelry, electronics, appliances or cars. You may needs these to file an insurance claim in the event of theft, damage or loss. It's also a good idea to hold on to receipts for any home improvements. If you are subject to capital gains taxes when you sell your home, you may be able to lower that tax bite by documenting your improvements.

Protect your privacy

When you decide to dispose of some financial records, it's important to ensure that you're not revealing personal information. Identity thieves have been known to search through trash bags seeking Social Security numbers or bank account numbers that they can use in their scams. A low-cost shredder can mitigate this risk. If you don't want to make that investment, you can simply tear up your documents carefully before you throw them out, taking particular care to destroy any sections that contain sensitive account information or other identification. And remember to store all documents that contain sensitive information in a safe deposit box or fireproof home safe.

Peter Deng & Associates can advise you on the best plan for retaining the financial records you're most likely to need in the future. Please consult us with all your family's financial questions.