

# TaxBrief

Keeping you informed

## Why keeping tax records matters

When tax season ends and your return is filed, it might feel tempting to toss your paperwork into storage or even the trash. But before you do, let's talk about what records are worth keeping, how long you need to hold onto them and how this simple habit can save you from major headaches later.

### Why you should keep tax records

The IRS generally has three years to audit a return, and taxpayers usually have the same amount of time to amend one. In some cases, that window can extend to six years, or remain open indefinitely if no return was filed or fraud is suspected. Your tax records help prove what you reported is accurate, protect you in case of an audit, and support any claims, deductions or credits.

### What records should you keep and for how long?

Below is a helpful guide for how long to keep different types of tax and financial documents.

#### Tax returns

- Keep for at least three years from the date you filed your original return or two years from the date you paid the tax, whichever is later.
- Ideally, keep for seven years if you file a claim for a loss from worthless securities or a bad debt deduction.
- If your return includes special items (e.g., carryforward losses, basis information), keep those records for as long as they are relevant to future returns.
  - This may mean holding onto certain documents for decades, especially if the item carries into retirement or is tied to a property you still own.

#### Receipts and supporting documents

Keep records for at least three years after the return is filed.

- This includes charitable donations, medical expenses, and other deductions or credits claimed.

#### Home purchase and sale records

- You should keep records related to the purchase and sale of your home for at least three years after the sale, not the purchase.
- Save records of home improvements (e.g., remodeling, additions) for as long as you own the property, plus three years after the sale, as they increase your home's basis and can reduce taxes when you sell.

#### Investments

- Keep brokerage statements for three years after you sell the investment.
- For IRA contributions and distributions, keep records indefinitely, especially if you made any non-deductible contributions, which are reported on Form 8606.

#### Employee business expenses

Most business expenses incurred as an employee are not deductible after 2017; however, qualified employees (e.g., Armed Forces reservists, qualified performing artists, fee-basis government officials or employees with impairment-related work expenses) should keep logs and receipts for three years after the return is filed.

## Gifts

- If you receive a gift, ask the giver for documentation of their basis (what they paid for it). This is necessary if you later sell the asset/gift.
- If a gift tax return (Form 709) is filed, keep it indefinitely.

## Inherited property

- Keep records showing the fair market value at the time of inheritance.
- Retain these records for at least three years after you sell the property, but ideally for six years in case of IRS review.

## Business records

- Keep records of income and expenses for at least three years after the return is filed.
- Retain records relating to property (such as depreciation schedules) for as long as you own the property, plus three years after it is disposed of.

## Other important documents

Wills, trusts, powers of attorney, divorce decrees, adoption papers, citizenship documents, military records and similar legal documents should be kept indefinitely, as there is no statute of limitations on them.

## Example: meet Cindy

Cindy bought a house in 2015 and remodeled the kitchen in 2018. In 2024, she sold the home, with a profit of \$250,000. To claim the home sale gain exclusion when reporting, Cindy needs the closing papers from 2015 and 2024, plus receipts from the remodel. Thanks to her careful recordkeeping, she was able to take advantage of the exclusion and reduce her taxable gain to \$0.

Keeping records organized now can lead to smart tax planning later. For example:

- **IRA contributions:** Knowing which contributions were deductible (and which were not) can help minimize taxes during retirement.
- **Home improvements:** These can increase your home's basis and reduce any taxable gains when you sell.

- **Capital losses or net operating losses:** If you carry these forward, they can offset income in future years. Keep all related documentation to support the deduction when applied.

## Frequently asked questions (FAQs)

### Q: Do I need to keep paper copies?

**A:** No, digital scans are acceptable; just make sure they are legible and securely stored.

### Q: What happens if I throw something out too early?

**A:** If the IRS audits you and you cannot support your deduction or income claim, it may be disallowed, possibly resulting in taxes owed, penalties or both.

### Q: What is the risk if I didn't file a return at all?

**A:** In this case, there is no statute of limitations; if you never file, the IRS can audit or assess taxes at any time in the future.

### Q: Where should I store my documents?

**A:** Use a fireproof safe, a secure cloud storage system or a bank safe deposit box. Always shred sensitive documents before discarding.

### Q: Are there tools or systems to keep records organized?

**A:** Yes, we can recommend apps and templates that help track receipts, mileage and investments.

## Looking ahead

Staying organized with your tax records isn't just about compliance; it's about peace of mind and maximizing your financial opportunities. By keeping the right documents for the right amount of time, you will be prepared for any questions from the IRS, make future tax filings easier, and ensure you don't miss out on valuable deductions or credits.

If you are ever unsure about what to keep or need help setting up a recordkeeping system, our team is here to guide you every step of the way. Let's work together to make your tax life simpler and more secure.