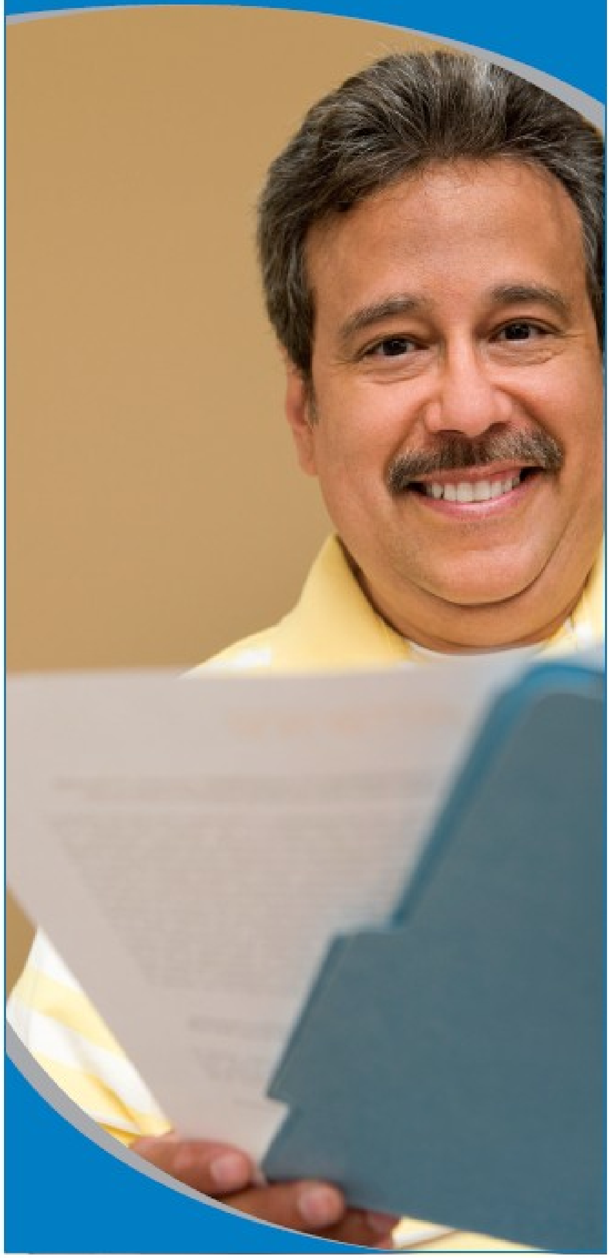
# Saving Records



## Why Save Records?

Once you file a tax return, there is no need to keep the records, right?

Unfortunately, that perception is wrong.

- The main reason to save tax records is to substantiate the information reported on the tax return.
- The statute of limitations for most federal tax returns is three years.
- This is extended to six years if you under-stated income by more than 25 percent.
- There is no time limit if the taxpayer does not file a return or files a fraudulent return in order to evade taxes.

## How Long Should You Keep Records?

### Prior Year Income Tax Returns

- Keep prior year returns a minimum of three years from the later of, the date you filed, or the due date of the return. Example: Bill and Sheryl filed their 2011 tax return on June 13, 2012. They had filed an extension that made their tax return due October 15, 2012. The three-year minimum means they keep their return until at least October 17, 2015, because that date is later than the date they filed. If Bill and Sheryl filed their 2011 return by March 15, 2012, the three-year minimum means they keep their return until at least April 15, 2015.
- The conservative approach would be to keep tax returns for seven years or forever.
- It is advisable to keep returns longer if there are items that affect future years. Common items that might affect future years include:

* Net operating losses.
* Capital losses.
* Charitable contributions.

### Tax Receipts

- Most audits occur within three years of the filing of the tax return.
- Keep receipts used to document expenses through the statute of limitations for that return.
- After the statute has expired, examine receipts to see if they fall into another area that would require you to save them for a longer period of time.
- Discard receipts that will not affect future transactions.
- Retain closing papers from the sale or purchase of a home a minimum of three years after the sale.
- When building a home or making improvements, keep careful records of all expenditures, including amounts paid to outside contractors. Keep these records for at least three years after the sale.

### Investment Records

- For retirement plans (401k, IRA, etc.), keep statements until the account is closed.
- Retain year-end brokerage statements from the purchase of stocks, bonds and mutual funds three years after you sell the investment.
  These statements show the reinvestment of dividends, the purchase of shares and the redemption of shares.

### IRA Contribution and Distribution Records

- Keep IRA contribution and distribution records indefinitely.
- Records of nondeductible contributions are particularly important.

### Business Records

- You can discard most receipts dealing with operational expenses if they do not fall within the statute of limitations.
- Retain receipts that relate to the property you still own for cost basis purposes.
- Keep payroll records for a minimum of four years.

- When a business has an overall loss on the tax return, the loss could create a net operating loss and is either carried backward or forward. Save the tax return and records of the calculation creating the net operating loss carryover or carryback (and the tax return for any year in which part of the carryover loss is absorbed) for three years following the last year the loss is used.

## Employee Business Expenses

- The most common employee business expenses are transportation and travel expenses.
- Save mileage logs, motel bills and meal receipts for the three-year limitation period.
- Truckers who claim the standard meal allowance should keep logbooks for three years.

## Gifts

- For gifts received, it is important to know the cost to the donor and to obtain receipts for gifts of property other than cash. This becomes the donee's basis in the property for future sales consequences. This is extremely important when gifting stock among family members such as grandparents to grandchildren. The grandparent's cost becomes the grandchild's basis.
- For gifts reported on a gift tax return (Form 709), the gift tax returns should be kept forever.

## Inheritances

- If you inherit property, you need to keep records that establish the value on the date of death.
- These records usually come from the fiduciary's (executor or trustee) records and you should save them for three years after the property is sold.

## Summary

- While the most common statute of limitations is three years from the filing of the return, a return that was never filed has no statute of limitations.
- The statute of limitations is six years for returns where income has been understated by more than 25 percent.
- Saving tax returns indefinitely may provide good historical information in addition to providing substantiation.

## Other Personal Documents

- Wills, living wills, healthcare powers of attorney, trust documents, powers of attorney, divorce decrees, military records, adoption documents, citizenship and/or naturalization documents, prenuptial agreements and birth, marriage and death certificates should be kept forever.
- Keep passports, alimony and custody agreements, insurance policies, employment contracts and deeds until no longer current.
- Bills or receipts for other major purchases such as vehicles, collectibles or jewelry should be kept for cost documentation purposes.
- Pay stubs, cancelled checks, general bills and receipts and credit card receipts should be shredded when monthly statements are received, unless the item is needed for tax purposes. Monthly statements can be shredded after one year.

## Document Security

- Shred all personal documents before discarding.
- Consider fire and flood-proof storage for important papers.
- A bank safe deposit box provides added safety.

**Tax Liability Consulting**

2570 Idaho Street
Elko, NV 89801
Phone: 775-738-4845
Fax: 775-777-3894
www.nevadataxman.com

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