

# HOW LONG MUST I KEEP MY TAX RECORDS

You should keep the paper copy of your Form 1040, or 1040A, plus all supporting Schedules and Forms, and copies of all your Form W-2s, **forever**. This provides a permanent record of your financial history. You never know when the information on a prior year's tax return will come in handy for a variety of tax or financial related reasons, or just to satisfy personal curiosity.

The time period for keeping all other records relates to the fact that the IRS, and most state tax authorities, generally have three years from the due date (or filing date if you had an extension) of a tax return to audit and revise that return. If you filed your 2015 Form 1040 by the initial April 15, 2016 due date, "Uncle Sam" has until April 15, 2019 to audit it and ask for additional taxes.

The IRS has six (6) years from the date a return is filed to audit and revise a return if there is a "substantial understatement" of income - the taxpayer omits income that amounts to more than 25% of the total income reported on the tax return or if there is more than \$5,000 in undisclosed foreign financial assets. In the case of tax fraud the IRS can go back forever and audit every tax return you have ever filed!

I recommend keeping all back-up documentation that supports an item reported or deducted on your tax return for four full years. This includes all applicable bank statements and cancelled checks as well as 1099s, 1098s, and appropriate receipts and bills. You can toss the back-up for your 2016 tax return in December 2020.

Hold on to your individual pay stubs for the year until you have received the Form W-2 for that year. Reconcile the year-to-date cumulative totals on the last pay stub for the year to the amounts reported on the W-2. If they match you can throw out all but the last pay stub. Keep the final pay stub for the year, with the year-end cumulative numbers, with your tax return documentation for that year.

Certain documentation requires longer holding periods. For investments in stock, bonds and mutual funds keep all confirms and other appropriate back-up (notices of splits and records of any dividend reinvestments) for as long as you hold the investment plus four additional years. Keep the confirmation slip or other documentation for the sale or disposition of the investment for four years after the sale or disposition.

Similarly, if you own real estate keep all Closing or Settlement Statements for the purchase and refinancing of the property, and documentation of any capital improvements, for as long as you own the property plus four additional years. Keep the Closing or Settlement Statement or other documentation for the sale or disposition of the property for four years after the sale or disposition.

If you have invested in a limited partnership or "sub-chapter S" corporation, or are a partner in a business organized as a partnership, a "sub-chapter S" corporation or an LLC or LLP keep the annual Form K-1 you receive from the investment or business for as long as you own an interest in the entity plus four additional years, and keep any paperwork related to the sale or disposition of your interest for four years after the sale or disposition.

Receipts and bills for personal expenses that are not related to any items reported or deducted on your tax return can generally be tossed after one year. You can throw out all such bills for calendar year 2016 in January of 2018.

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