

Records Retention

Is record keeping taking over your life? Are you keeping every single bill, tax return, insurance invoice, medical documentation, contract and even the 15-year-old warranty for the toaster oven that you sold at the yard sale ten years ago? If you answered "yes", you are not alone. Many people are not sure how long financial records retention should last, especially tax records. We can help you establish a document retention policy that works!

Records Retention Guidelines:

When it comes to financial records retention and records retention guidelines, there aren't any hard and fast records retention guidelines -- but we have managed to find some basic rules of thumb for the retention of records. We can help you decide which methods work best for you.

Suggestions for the Retention of Records

Since identity theft is all over the news, another good record keeping suggestion is to destroy all records with your personal information on them for safekeeping. Shredders are inexpensive and can start from as little as \$25 for a machine that shreds five sheets at a time. Additionally, scanners can help you with the retention of records. You can store tons of receipts and other documentation in a neat, organized and clear fashion.

Marketing Document Retention Policy: Another quick record keeping tip is to open your bills when they come in and toss all of the marketing "stuff". You don't need to keep any of it unless, of course, you plan to use it. But even then, make sure that you do! These are "records" you don't need to "retain."

Tax Returns and Backup Documentation: Whether personal or business, the general rule is seven years. This may seem like a long time to hold onto these papers, but think of it as an annual cleaning out as new returns are filed. One in ... one out and the old adage of "better safe than sorry" will apply. The IRS has 3 years to audit you from the date you file your taxes; however, there are exceptions -- these include:

- False Return - Tax may be assessed at any time, without limitation.
- Willful attempt to avoid tax - Tax may be assessed at any time, without limitation.
- No return - Tax may be assessed at any time, without limitation.
- Extension by Agreement - Assessment period defined by agreement between IRS and taxpayer.
- Tax resulting from changes in certain income or estate tax credits - No timeframe defined.
- Tax resulting from distributions or terminations from a life insurance company - 3 years
- Termination of private foundation status - Tax may be assessed at any time, without limitation.
- Substantial omission of items (generally defined as over/under reporting of income by 25% - 6 years.

Yes, the IRS keeps copies of your returns, but it is up to you, in the event of an audit or any other types of questions, to have on hand all of the backup information that went into the preparation of your returns. This is where a scanner may come in handy, as you could easily scan your backup information and that would cut down on the paper pile.

Medical Insurance: This includes your premium statements, doctor bills, copies of prescriptions (if you keep one for yourself- most people don't -- relying on their pharmacists to have those on hand), hospital bills, etc. The general rule here is five years from the date of the service rendered.

Home Insurance: The minimum timeframe suggested is five years. However, if you think that you may have any issues in the future, go with the ten year rule. You really shouldn't rely on the insurance company to provide copies of your records since any burden of proof will fall to you.

Warranty Documents: Remember that old toaster oven? Well, keep in mind that anytime you get rid of an appliance, telephone, or anything else that had warranty documentation, you can safely "chuck" the papers at the same time! The general guideline is to dispose of a warranty at the date of expiration.

Home Repair Bills & Contracts: This is another great area where a scanner might save you some significant file room. Basically, you should keep these kinds of records for about ten years in case you need to prove something with regard to guarantees of workmanship, or if you have any inkling of potential litigation at some future date.

Pay Stubs: OK, why do we all keep these?? Is anyone really going to ask for proof that you worked at the grocery store during Junior High? I don't think so. This one is easy. Keep the year-long worth of stubs until you reach the year-end check of December 31 st that recaps the entire 12 months worth of pay, social security, taxes, etc. Then get rid of those other "51" or "22" statements. Also remember that the Social Security Administration has all of your employment history on file.

Financial Documents: Chances are if you have any stocks, bonds, mutual funds, etc. you are inundated with prospectus, privacy notices, address confirmations, and on and on. Don't keep any of these unless again, you plan to act on them within the next two weeks.

Public companies ask you to vote for the board of directors and special measures once a year. Unless you own a significant amount of stock or have a strong opinion, you may wish to save the company postage and toss the vote card. Again, either send in the paperwork or throw it away.

Utility Bills: If you are writing off your utility bills for tax purposes, you may need to keep them as tax records. However, if you can't write them off, you can keep a minimal amount of bills (last 3 months). The utility companies can recreate the others for you if you need them. Three months allows you to establish residency for purposes of drivers licenses, voter registration, mortgage application, etc.

Mortgage Documents: The good news is that the most important documents are probably recorded in your county records. For example, if you use a commercial bank for your financing then they will record a mortgage on the property when you take out the loan. After you've paid off the mortgage they are obligated to record a satisfaction of mortgage.

If you look at that document, you should see some recording marks along the side indicating the book and page in which it was recorded in the county records. To be safe, however, I'd hold onto that document for 10 years. Whenever someone thinks you owe them money, you'll want to hold on to proof of payment for longer than you would if the reverse was true. The burden of proof is going to be on a lender to prove you owe money. If you've paid it off, you'll want to prove that you did. This can be done with the satisfaction of mortgage or with bank statements

and cancelled checks that your bank has on microfilm. However, if this information is readily available from the bank or county records, you don't need to worry too much.

If you are doing renovations, make sure you get the satisfaction of lien from the contractors doing the work. Keep that as long as you own the property. When you sell it, the lawyers will do a title search and the title insurance should take over after that.

So, records retention, when in doubt, go with the ten year rule of thumb and you should be just fine. Also, consider purchasing, and using a paper shredder, as well as a scanner, these two items could save you time and hassles