

Tax records: What do I keep?

You've just finish filing this year's tax return. With a sense of relief, you set aside a copy of your return and your supporting documents. But what do you do with them then?

Of course, the first step is to keep your tax records in a safe, convenient place. You may need to refer to them for any number of reasons—for example, for future filings or when you are seeking credit. Then, too, you'll need easy access if you face an audit from the IRS.

The following suggestions will help you compile the best and most complete records.

What to keep

First, there are the basic records that you will want to have on hand. Records of your income: Form(s) W-2, Form(s) 1099 and bank statements. Expense records should include sales slips, invoices, receipts, cancelled checks or other proofs of payment. Among the investment records that you'll want to keep are the following: brokerage statements, mutual fund statements, Form(s) 1099 and Form(s) 2439 (Notice to Shareholder of Undistributed Capital Gains). Keep year-end account summaries and deposit receipts for any IRA or Keogh contributions.

Your records should enable you to determine your basis in an investment and whether you have a gain or loss. Records should show the purchase price, sales price and commissions paid. They also may show any reinvested dividends, stock splits and dividends, load charges and original-issue discounts. If you have real estate investments, you'll need to keep copies of all the regular and extraordinary expenses associated with the properties.

How long to keep it

According to the Tax Code, you are required to keep copies of your tax return and all support as long as they may be needed for the administration of any provision in the law. Typically, that means for as long as the IRS has the right to assess additional tax on your return, or you have the right to amend your return to claim a credit or refund ("the period of limitations").

There are several periods of limitations. One is a three-year period that applies generally. Another is a six-year period that applies when you don't report income that you should and that income is more than 25% of the gross income shown on your return. If the return is fraudulent, or you fail to file a required return, there is no limit as to when the IRS can require you to provide it with information.

Recordkeeping for homeowners

Determining your basis (cost) in your home will be extremely important in order to figure the gain or loss when you sell your home (or to calculate *depreciation* if you use part of your home for business purposes).

Therefore, your records should enable you to determine your basis as well as any adjustments to your basis. Your records should show the original purchase price of your home and settlement or closing costs. They also may show any casualty losses incurred, insurance reimbursements for casualty losses and postponed gain from the sale of a previously owned home.

Be sure to keep a file of bills on what improvements you've made to your home each year. Generally, the costs of improvements—changes that add value to your home, prolong its life or adapt it to new uses—may be added to the basis in your home. Repairs and general fix-up costs may not.

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Any developments occurring after January 1, 2008, are not reflected in this article.