SAVINGS RECORD

**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.

\*It is helpful, and sometimes required, to save certain records even longer.

**How Long Should You Keep Records?**

**Prior Year Income Tax Returns**

* Keep prior years returns a minimum of three years, unless your state requires a longer period
* It is advisable to keep them longer if reported transactions might affect future years.

**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 applicable for that return.

\*After that period 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.

\*You can then discard any receipts that will not affect future transactions.

**Business Records**

* You can discard most receipts dealing with operational expenses if they do not fall under the statute of limitations.
* To verify the cost for future sales, retain receipts that relate to property you still own.
* Keep payroll records for a minimum of four years
* When your business produces an overall loss on the tax return, the loss is either carried backward or forward, depending on your situation.

\*Save the tax return and records of the calculation creating the carryover (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 was used up.

**Employee Business Expense**

* 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.
* If you are a trucker who claims the standard meal allowance, keep the logbooks for three years.

**Closing Papers From the Sale or Purchase of a Home**

* Retain the closing papers from the sale or purchase of a home for a minimum of three years after the sale of the home.
* If you have previously deferred the gain from the sale of a residence, save the closing papers and the tax return from the sale through the limitation period of your next home sold.

**Building or Improvements to Your Home**

* When you build your own home, keep careful records of all expenditures, including the amounts paid to outside contractors.
* The same is true for any improvements made to your home.
* Keep these records for at least three years after the sale of the home.

**Investment Records**

* Retain year-end brokerage statements from the purchase of stocks, bonds, and mutual funds until 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 records and distribution records indefinitely.
* Records of nondeductible contributions are particularly important.

**GIFTS**

* It is important to know the cost to the donor and to obtain receipts for the gifts of property other than cash. This becomes your basis in the property for future sales consequences.

**Inheritance**

* 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 records and you should save them for three years after you sell the property.

**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 statutes of limitations.
* The statute of limitations is six years for returns where income has been understated by 25% or more
* Savings tax returns indefinitely may provide good historical information in addition to providing substantiation.