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Financial Records- How Long Do We Need To Keep?

Clients are always asking about the necessity of keeping records and documents. Even in this so called “paperless” age, it’s still amazing how much we accumulate in paper over the years. That having been said, as a general rule, there are several time lines to keep in mind when determining the length of time you need keep financial records.

- **Three Years-** under normal circumstances, the IRS has three years from the time a tax return is filed to conduct an audit of that tax return. Therefore, it is necessary that all records supporting the tax filing be kept on hand. These records include cancelled checks, housing records, any tax related documents, contracts and leases, and asset receipts.
- **Six Years-** the IRS has six years to do perform an audit if it feels income has been underreported by more than 25%. This situation tends to apply to more complicated income tax returns, especially those that include self employment income. Bank statements and investment records should be kept at least six years.
- **Forever-** sorry, yes, forever. From an income tax perspective, the IRS has an unlimited amount of time for those that fail to file a tax return or that file fraudulently. In addition, the following records, deemed as “permanent”, should be kept indefinitely- filed income tax returns, real estate records, IRA contributions, legal correspondence, insurance records audit reports and, very importantly, records that support the cost, investment or “basis” of assets which would be used in the determining the gain or loss upon the eventual sale of the asset.

Please feel free to call or email our office if you have any questions regarding this information or would like to discuss in more detail.