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HOW LONG TO KEEP TAX RETURNS

Many filers breathe a sigh of relief after filing their tax returns each year, hoping that they won't have to think about the process again for another 12 months. However, keeping your tax records in order year-round is a helpful way to help protect yourself in the case of an audit. But how long should you keep these records? Get rid of them too soon, and you risk losing information that could help you fight an audit case. Keep them for too long, and you have a large stack of papers or digital files with your personal and financial information sitting around, which can put you at risk. The IRS has limits on how far back into your taxes they can look, and it's important to understand these limits to see what you need to keep and what you can afford to get rid of.

Statute of Limitations
The IRS statute of limitations, which governs how long the IRS may perform an assessment of your taxes, expires three years from the due date of the return or the date that you file, whichever is later. So, for example, if you filed your 2012 tax return on April 15, 2013, you would want to keep those records until April 15, 2016. Although this three-year period is the standard statute of limitations, it may be extended under the following circumstances:

If you don't report all of the income that you should. If you aren't reporting your full income on your tax return (generally, if you omit more than 25 percent of the gross income from your return), the statute of limitations will extend to six years.

If you don't file a return. If you never file a return, the statute of limitations is never activated, and therefore has no expiration date. In this case, you'll have to hold on to your supporting documentation forever-which might cause more headache than just filing in the first place.

If you claim depreciation, amortization or depletion deductions. If you claim any of the preceding deductions, you'll want to keep any relating documentation for as long as you own the property you claimed them on.

If you claim special deductions and credits. If you claim any type of special deduction or credit on a property, you should keep your records for seven years after the filing date. Examples of this include claiming a loss from worthless securities.

If you are an employer. If you pay employment tax on employees, you'll want to keep these records for four years after the date that payroll taxes become due or are paid, whichever is later.

If you have unusual transactions or irregular income on your return. If your return includes a transaction that is unusual for you, such as a property sale, or a form of irregular income, such as from a trust, you should keep records for six years from the filing date.

If you file a claim for a refund after you file your return. In this case, you should keep records for three years from the date of the claim or two years after the tax was paid, whichever is later.

Supporting Documentation

Although keeping a copy of your return is important, so is keeping track of any documentation that supports the information on your return. Although appropriate and necessary documentation will differ based on your situation, consider the following:

W-2 and 1099 forms
Credit card statements
W-4 forms (if you are an employer)
Invoices
Bills
Mileage logs
Bank statements
Proofs of payment
Benefit forms (if you are an employer)
Canceled or substitute checks
Record of purchase price/costs of improvements made to real estate
Brokerage statements
Written communications from charities

Additional Tips

The preceding guidance applies only for federal taxes-if you pay state income taxes, you'll need to keep records according to your state law. Check with your state authorities to find out what records you should keep and for how long.

Keep your records organized, and choose a filing system that works best for you-organizing by year or even month will probably be the most helpful.

Since 1997, the IRS has accepted scanned receipts rather than paper copies. As long as they are accurate, you can store your copies digitally and save yourself some space.

Since your tax records contain sensitive personal and financial information, you should store them in a safe place and be sure to shred all copies when you no longer need them.

If you accidentally lose a tax return and need a copy of it, you can request one from the IRS by filing Form 4506. These are available for seven years after filing and will cost a nominal fee.

Although you may no longer require your tax records for tax reasons, you may need them for other reasons. Be sure to check with a tax professional before shredding important documents.

For additional information on tax records and how long you should keep them, please reference ***IRS Publication 552. Or, call your MG Team - we will be happy to assist you with any questions.***