Record Retention

The length of time required to keep your records related to the preparation and filing of your tax returns is dependent on the statute of limitations for the returns. The statute of limitations is the length of time the IRS can audit a return and assess additional tax. This is also the time allowed for taxpayers to file amended returns. Generally, the IRS has three years to assess tax from the filing date of tax returns. However, in cases of fraud or substantial understatements of income, the time period is extended to six years. We generally recommend adding one year to the statute period.

Records to Keep Indefinitely

Keep copies of your tax return indefinitely. This is your only proof of filing, especially for years you did not electronically file. By having copies of all of your tax returns, you are prepared to show evidence of filing to the IRS. Keeping your returns indefinitely will also ensure that any needed information from these returns is available in future years.

Other records to keep indefinitely include, but are not limited to: compiled, reviewed, or audited financial statements; cancelled checks for tax payments; company minutes and stock records; IRS audit reports; property appraisals; and trademark and patent registrations.

Records Related to Real Estate and Business Property

Information related to real estate and business property, including purchase and lease information, need to be kept as long as the property is owned, and for a period of seven years after the property is sold or no longer leased. For property acquired in a like-kind exchange, records related to the acquisition of the old property should be retained until the new property is sold. For inherited property, copies of the Estate Inventory reporting the property value should be kept for seven years after the property has been sold.

These records include records related to the purchase of your primary residence, even if your expected gain is covered by the current home-sale exclusion.

Keep Most Tax Return Supporting Records for Seven Years

By keeping your supporting documents for seven years, you are allowing yourself one extra year cushion beyond the statute of limitations. Of course, if you have not filed a return, the three or six-year period has not started. Records to keep for seven years include:

- bank statements and reconciliations,
- insurance records,
- mortgage statements,
- invoices for goods and services paid,
- customer invoices and deposit records,
- employee time records,
- inventory records, and
- payroll tax returns.

Underlying records such as bank deposit slips and cancelled checks can be kept for four years.

Keep Employee Personnel Records for Three Years after Termination

Records in Separation or Divorce Situations

Both spouses will need copies of tax records, especially jointly filed returns. One or both spouses can be liable for tax on a jointly filed return, and the IRS can assess a deficiency against either. Be sure that both spouses also have copies of the records of all jointly-owned property.

Loss or Destruction of Records

To protect against loss or destruction of records, you should consider keeping your most important documents in a safe deposit box or other safe location. If you do suffer from a loss or destruction of records, many of the records can be reconstructed. For instance, paid preparers are required by law to keep tax returns for 3 years. Seiler, Singleton & Associates, PA keeps copies of all tax returns prepared and their underlying documentation for a minimum of 5 years.