**Tax records: What can you toss and what should you keep?**

**Understanding Audit Timelines:** Navigating the complexities of tax record retention can be challenging, but understanding which documents to keep and for how long can save you from potential audits and financial headaches. The IRS generally has three years to audit a tax return from the later of the due date of the return or the date you file. Within this period, you can also file an amended return if you overlooked something initially.

## Federal Tax Records:

- **How Long to Keep Records:** While the IRS usually audits within three years, many experts advise keeping your filed tax returns indefinitely. If you can't keep them forever, aim for at least six years from the due date or the filing date.
- **Supporting Documents:** Hold onto documents that back up the items on your tax returns until the three-year statute of limitations ends. This includes things like canceled checks, receipts for charitable donations, and documents for mortgage interest payments and retirement contributions.
- **Disposing of Records:** In general, you can start discarding records related to your 2020 return if you filed on time (by May 17, 2021, due to the pandemic) after three years. However, extended 2020 returns might still be subject to audit until October 15, 2024.
- **Extended Audit Periods:** If the IRS suspects you underreported your income by 25% or more, the audit period extends to six years. There’s no time limit for audits in cases of suspected fraud or if you didn’t file a return.
- **Special Cases:** Keep records for carryovers of charitable deductions until they are no longer relevant. Retain records for bad debts or worthless securities for up to seven years, as they can affect refund claims.

## State Tax Records:

- **Retention Recommendations:** These guidelines focus on federal taxes. Check with your state's tax office for specific retention requirements.
- **After an Audit:** States can review issues related to federal returns that have been audited. Keep related records for at least a year after the IRS audit concludes.

## Real Estate Records:

- **How Long to Keep Records:** Keep real estate records for the entire time you own the property and for three years after you sell it and report the transaction on your tax return.
- **Types of Records:** Save documents related to the purchase, improvements, insurance claims, and refinancing. These records help establish your adjusted basis in the property, which is needed for calculating taxable gain on sale and supporting rental or home office deductions.

## Investment Account Statements:

- **Detailed Records:** To report stocks and bonds accurately, keep detailed records of purchases and sales, including dates, quantities, prices, dividend reinvestments, and related expenses. Retain these records for as long as you own the investments plus additional time until the statute of limitations for the relevant tax returns expires.
- **IRA Records:** Hold onto Forms 8606, 5498, and 1099-R until all funds are withdrawn from your IRAs. It's also important to keep records for Roth IRAs in case of inquiries.

## Purging Records:

- **Be Cautious:** While getting rid of old tax records can save space and reduce the risk of identity theft, discarding them too soon can leave you vulnerable if the IRS has questions. When in doubt, keep records longer than you think is necessary. Contact our office if you have any questions about what to keep.

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