



Document Retention:

Taming the Paper Dragon!

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Q– It’s tax time and I am drowning in paperwork! What should I keep? What should I toss?

A - Tax time is an excellent time for a little financial spring cleaning! Your question is a great one debated in legal circles everywhere. Here are some general guidelines:

In my younger days I was a bit of a compulsive bookkeeper. I kept every receipt, every bill, every check stub – the list went on and on.

Now I’ve streamlined the process. In general, most receipts don’t need to be kept unless they are tax or warranty related. It’s also a good idea to keep receipts if there’s a possibility that it might be necessary to prove payment at some time in the future. Bank statements, utility bills and pay stubs should be kept for one year – credit card statements for three years.

In general, tax records should to be retained for 6 years. This includes your return as well as the supporting documentation – W-2’s, 1099’s, cancelled checks, cost basis of assets sold, IRS correspondence and audit reports. (However, if you have not filed a return and were required to do so or have knowingly filed a fraudulent return, you must keep your tax-related records forever.)

If you own an asset that will be sold some day and the gain (or loss) will be reported on your tax return, those documents need to be kept until the asset is sold – and then placed with your tax records for the year of sale. I find that this can be challenging. For instance, many people worked for employers and bought some employer stock with each paycheck. The company grew and the stock split and at some point in time, that person sells the stock. At tax time

the CPA says “How much did you pay for this?” “Yikes! I have no idea.” is often the answer. On a prospective basis, brokerage firms are now required to furnish you (and the IRS) with a record of purchases and sales of securities, but it’s up to you to determine the cost of those long ago purchases. Your financial advisor may be a great resource to assist you in this research.

The same rules apply to real estate. When you purchase a house, the most important documents are the mortgage, the deed and the closing statement (the HUD statement). These should be kept until six years after the house is sold. Additionally, if you make major improvements to your home, those receipts should be kept as well since they reduce the gain that you eventually report on the sale. For your personal residence, the gain is not taxable under most circumstances, but if you convert your residence to a rental property, those records become critical.

Medical insurance and property and casualty insurance paperwork should be kept for 3 years (6 years for accident reports or claims). This includes policies, claims and bills - just in case there is a dispute.

Some records should be kept permanently. Medical records, birth (and death) certificates, marriage licenses, (and divorce decrees), military discharge papers, mortgage “Paid in Full” notices, and legal contracts should be



kept forever. Additionally, estate planning documents such as wills, trusts and powers of attorney need to be kept unless they are updated by a new version. Likewise, annuity and life insurance contracts should be kept until they are replaced or liquidated.

Make sure that your old documents are properly disposed of. According to the Federal Trade Commission, identity theft was the #1 consumer fraud complaint in 2009. It is estimated that more than 9 million Americans have their identity stolen each year. Research shows that most identity thieves obtain information through traditional paper-based sources rather than by electronic means. Shredding or otherwise destroying your documents helps protect your privacy and prevent identity theft.

To assist you with your financial spring cleaning, on tax day each year we invite clients and friends to a Shred-A-Thon in our parking lot. Our colleagues at Assured Document Destruction bring their special shredding truck so that you can watch your documents destroyed before your very eyes. It's amazingly cool to watch! These are the folks that the Social Security Office trusts for their document destruction, so your papers are safe with them. Call our office at 480-503-0050 regarding the time and location of this year's event.

If you would like a free copy of *How Long Should I Keep My Records*, email me at TBear@jcgrason.com and I'll get it right out to you.

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Teresa Bear specializes in retirement planning and asset preservation for retirees and their loved ones. Teresa works primarily in the Phoenix Metro area and has offices in Mesa and Chandler.

Teresa has been helping families and retirees reach their financial, tax, retirement planning, and estate planning goals for over 25 years. She is legally bound to uphold the highest level of fiduciary standards when providing investment advice to her clients.

Author of the book, *She Retired Happily Ever After*, Teresa is committed to educating clients and assisting them in reaching their financial goals.

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