

HOW LONG DO YOU HAVE TO KEEP YOUR STATEMENTS?

A year? Seven years? It depends.

provided by Renita M. Owens, CPA, PFS

You have probably heard that you should retain copies of your federal tax returns for 7 years. Is that true, or a myth? How long should you keep those quarterly and annual statements you get about your investment accounts? And how long should you keep bank statements before throwing them away?

Your age, wealth and health might shape your answer. If you are not yet retired, then you may wish to follow the general “rules of thumb” presented across the rest of this article.

On the other hand, if you are retired and there is any chance that you might need to apply for Medicaid, then you should keep at least five years worth of all financial records on hand (including credit card statements).

Why? Medicaid has a five-year “lookback” period in many states. To be approved for benefits in those states, you have to prove that you didn’t give away funds during that five-year period. To prove this, you must produce complete records from every bank and brokerage account to which you have access, including those held jointly. With all the Wall Street mergers and bank closings in the last few years, these financial records can be really hard to obtain if you don’t have them.

Another special circumstance: if someone you love ends up under court supervision via guardianship or conservatorship, all financial records must be kept from date of that guardian’s or conservator’s appointment until the court gives final approval to the fiduciary’s financial account.

All that said, many people do not need to retain all financial statements “forever”. Here are some suggestions on what to keep and when to purge.

Tax returns? The Internal Revenue Service urges you to keep federal tax returns until the period of limitations runs out. The period of limitations = the time frame you have to claim a credit or refund, or the time frame in which the IRS can levy additional taxes on you. (This is a good guideline for state returns as well.)

If you file a claim for a credit or refund after you file your tax return, the IRS would like you to keep the relevant tax records for 3 years from the date you filed your original return or 2 years from the date you paid the tax, whichever is later. If you claim a loss from worthless securities or bad debt deduction, you are advised to hang onto those records for 7 years. If you ... uh ... filed a fraudulent return or no return, you should keep related/relevant documents for 7 years. The IRS also advises you to retain employment tax records for at least 4 years after the date that the tax becomes due or is paid - again, whichever is later.¹

Some tax and financial consultants advise people to keep their tax returns forever, but concede that canceled checks, receipts and other documents supplemental to returns can usually be safely discarded after 3 years. (The standard IRS audit goes back three years.)

Tax records relating to real property or “real assets” should be kept for as long as you hold the asset (and for at least 7 years after you sell, exchange or liquidate the asset). These records can help you figure appreciation, depreciation, amortization, or depletion of assets with regard to the property.¹ You also might want to keep receipts and tax records related to major home improvements - if you sell your home, you can show tomorrow’s buyer how much you put into the house.

Mutual fund statements? The annual statement is the one that counts. When you get your yearly statement, you can toss quarterly or monthly statements (unless you really want to keep them). You might want to quickly glance and make sure your annual statement truly reflects changes of the past four quarters.

You want to keep any records showing your original investment in a fund or a stock, for capital gain or loss purposes. Your annual statement will tell you the dividend or capital gains distribution from your fund or stock; as you may be reinvesting that money, you have a good reason to keep that statement.

IRA and 401(k) statements? You get a new one each month or quarter; how many do you really need? The annual statement is the most relevant. Additionally, you want to hang onto your Form 8606, your Form 5498, and your Form 1099-R.

Form 8606 is the one you use to report nondeductible contributions to traditional IRAs. Form 5498 is the one your IRA custodian sends to you - it is sometimes called the “IRA Contribution Information” or “Fair Market Value Information” form, and it usually arrives in May. It details a) contributions to your traditional or Roth IRA and b) the fair-market value of that IRA at the end of the previous year. Form 1099-R, of course, is the one you get from your IRA custodian showing your withdrawals (income distributions).²

If you are 59½ or older and have owned a Roth IRA for 5 years or more, the assets in your account become tax-free, lessening your need to save these forms. However, you will want to keep a paper trail before then - if you somehow need to make early or tax-free withdrawals or write off a loss, you need the documentation.²

Bank statements? The rule of thumb for most people is 3 years, just in case you are audited. Some people shred bank statements after a year, or immediately, fearing that such information could be stolen.

In some cases, it is wise to hang onto bank statements longer. If you are going through a divorce, if someone tries to take you to court in the future, or if a creditor comes

knocking, you may want to refer to them. Your bank may provide you with archived statements online or on paper (but it may charge you a fee for hard copies).

Payroll documents? Most financial and tax consultants advise you to retain these for 7 years or longer if you are a small business owner or sole proprietor. The IRS would like you to keep them around at least that long. Again, should there be a lawsuit or a divorce or any kind of potential legal dispute involving your company or one of its employees, a detailed financial history can prove very useful.

Credit card statements? You don't need each and every monthly statement, but you may want to keep credit card statements that contain tax-related purchases for up to 7 years.

Mortgage statements? The really crucial records are most likely on file at the County Recorder's office, but it is recommended that you retain your statements for up to 7 years after you sell or pay off the mortgaged property.

Life insurance? Keep policy information for the life of the policy plus 3 years.

Medical records and medical insurance? The consensus is 5 years from the time treatment ends (or from the time medical services are rendered, with regards to insurance). Do you think you can claim medical expenses on your tax return? Then follow the IRS suggestion and retain records for 7 years following the end of the year in which they are claimed.

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Citations.

- ¹ [irs.gov/businesses/small/article/0,,id=98513,00.html](https://www.irs.gov/businesses/small/article/0,,id=98513,00.html) [4/8/08]
² [kiplinger.com/columns/ask/archive/2004/q0206.htm](https://www.kiplinger.com/columns/ask/archive/2004/q0206.htm) [2/6/04]