

Tax News

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Saving Your Tax Records: What You Need to Know

Now that the end of the traditional tax filing season is upon us, it may be tempting to purge certain tax documents from your files for the current and past tax years. However, you should be aware of the rules for retaining relevant tax records in the event that the IRS – or another taxing authority – requires that those records be produced as part of an audit.

Keep at Least Three Years

The following records are commonly used to substantiate a taxpayer's income and expense items:

- Form(s) W-2
- Form(s) 1099
- Form(s) K-1
- Bank and brokerage statements
- Canceled checks or other proof of payment of deductible expenses

At a minimum, the above tax records should be kept for a three-year period following the date that you filed your return, or its due date, if later.

However, the IRS's time limit for initiating an audit on a return where income was grossly understated, yet no fraud was discovered, is six years. Therefore, it is ideal to retain the above documents for six years to better protect yourself in the event of an audit.

Similarly, you should keep investment records for a period of time after you liquidate any given investment. Documentation that substantiates the gain or loss on an

investment should be kept for a period of time that corresponds with the time frame that you retain other tax documents supporting the return on which you report the sale.

Prior Years' Tax Returns

It is a good idea to maintain one or more permanent files with important legal and personal documents, including those relating to taxes. Specifically, as a general rule, you should retain copies of your federal and state income-tax returns (and any tax payments) indefinitely. For instance, the IRS or another taxing authority could claim that you never filed a particular year's return. If that occurs, the IRS (or other authority) could assess tax and penalties relating to the return in question. You will need a copy of your return to bolster your position that you actually filed the return.

Need More Information?

Filing your returns on a timely basis is just one aspect of properly handling your taxes. Be prepared to defend yourself in the event of an audit by retaining your records for the appropriate time period. Call the professionals at Doeren Mayhew today at (248) 244-3000 if you have any further questions.