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### HOW LONG MUST RECORDS BE KEPT?

By Victor Sy, CPA, MBA

How long should you retain records? I have some clients who throw away everything instantly. Can't stand records. I also have clients who keep records forever. Rat packs. There must be some balance in between. Unfortunately, there is limited guidance from the IRS. Fortunately, there are relevant statutes of limitation – the period when you can amend a tax return or the IRS can assess additional tax.

#### Let's discuss 12 rules on record retention:

1. Federal statute of limitations is **three years**.
2. Statute for most states, including California, is four years.
3. For example, if you file your **2011** tax return on **April 17, 2012**, keep your tax records until April 15, **2015**. If you file that return early in January, the statute is still **April 15, 2015**. If you wait until your favorite deadline of October 15, the authorities have until **October 15, 2015** to get you.
4. Tax returns with substantial understatement of income are six years for federal, seven years for state.
5. It is more prudent to add a year to these periods.
6. There is no limit if tax return is not filed. In other words, if you do not file a tax return, the IRS has forever to audit you. If you have some issues that bother you, file. And pray. If you are not audited within the statute period, you are fine, thank goodness.
7. There is no limit for fraudulent tax returns either.
8. Bad debts and worthless securities should be kept for seven years.
9. There are some records that should be kept longer such as invoices and checks to buy property that could be sold (house, rental units) or depreciated (furniture, equipment).
10. Some records such as tax returns, audit results, and financial statements, should be kept indefinitely.
11. Then there are non-tax reasons for keeping some records longer such as insurance policies, leases, real estate escrow closing statements.
12. A revenue procedure allows you to convert paper documents to electronic images or transfer computerized records into electronic storage media such as CDs or DVDs. You may then destroy the original hard copies or delete original computerized records.

#### Filing Tips:

1. Consider storing each year in a separate box that you can easily throw away each statute year expires.
2. Second tip: use filing cabinets to divide your files into two categories:
  - A. A permanent file for tax returns, car purchase contracts, life insurance policies, and
  - B. An annual file for paid invoices for groceries, personal items, and supplies.
3. Last tip: go clean your garage this weekend.☺

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