How Long Should You Keep Tax Records?

Each person's tax situation is different. For some people, filing their tax return is a simple process of transferring a few basic bits of personal information to the single-page form 1040EZ. For others, keeping records and preparing tax returns is a complex and ongoing necessity. But no matter who you are, you need to keep your tax returns and good records that support your claims of income and deductions.

Consult your tax consultant for specific advice on what records to keep. The following is excerpted from IRS publication 552 regarding how long you should keep tax records:

How Long To Keep Records

You must keep your records as long as they may be needed for the administration of any provision of the Internal Revenue Code. Generally, this means you must keep records that support items shown on your return until the period of limitations for that return runs out.

The period of limitations is the period of time in which you can amend your return to claim a credit or refund or the IRS can assess additional tax. Table 3 contains the periods of limitations that apply to income tax returns. Unless otherwise stated, the years refer to the period beginning after the return was filed. Returns filed before the due date are treated as being filed on the due date.

Period of Limitations

IF you...THEN the period is... 1Owe additional tax and (2), (3), and (4) do not apply to you3 years 2Do not report income that you should and it is more than 25% of the gross income shown on your return6 years 3File a fraudulent returnNo limit 4Do not file a returnNo limit 5File a claim for credit or refund after you filed your returnLater of 3 years or 2 years after tax was paid. 6File a claim for a loss from worthless securities7 years

Property

Keep records relating to property until the period of limitations expires for the year in which you dispose of the

property in a taxable disposition. You must keep these records to figure your basis for computing gain or loss when you sell or otherwise dispose of the property.

Generally, if you received property in a nontaxable exchange, your basis in that property is the same as the basis of the property you gave up. You must keep the records on the old property, as well as the new property, until the period of limitations expires for the year in which you dispose of the new property in a taxable disposition.

Keeping records for nontax purposes

When your records are no longer needed for tax purposes, do not discard them until you check to see if they should be kept longer for other purposes. Your insurance company or creditors may require you to keep certain records longer than the IRS does.