

6 Guidelines for Records Retention: Keep It or Toss It?



While setting up records retention guidelines with my clients' one of the first questions everyone asks is "how do I know if I need to keep it"? The following guidelines will explain how long you are required to retain legal and financial documents.

A Quick Note Before We Start

The yearly "file purge" is a sensitive (and somewhat scary) issue for many, because there could be harsh consequences if you toss something that you should have kept. These are general-purpose records retention guidelines. If you have unusual or extenuating circumstances in your life please check with your accountant or attorney before pitching any important legal, business, or financial paperwork.

Records Retention Guideline # 1: Some items should never be thrown out

This is because these items would be hard to replace and you may be asked to provide them later in life. I suggest storing these "permanent records" in an expanding file or wallet – preferably in a fire safe or safe deposit box:

- Income tax returns and payment checks
- Important correspondence
- Legal documents
- Vital records (birth / death / marriage / divorce / adoption / etc.)
- Retirement and pension records
- Investment trade confirmations and statements that indicate buying and selling
- CPA audit reports
- Trust documents

Records Retention Guideline #2: Business records need a permanent file

Businesses are held accountable to a much stricter set of rules than individuals. To complicate matters further, many industries (healthcare, insurance, law, etc.) set their own legal standards, so be sure to ask your professional



association for their policies. In addition to the items listed above, all companies should create permanent files for:

- Annual financial statements
- Corporate documents (incorporation, charter, constitution, bylaws, minutes)
- Stock records
- Licenses, patents, trademarks, and registration applications
- Documents substantiating fixed asset additions
- Purchase receipts

Records Retention Guideline #3: Keep tax records for 6 years

The IRS may go back 6 years to audit your tax returns for errors or incorrectly claimed deductions – so it's important that you keep all tax-related documents for that length of time, including:

- Bank records
- Personnel and payroll records
- Purchase and sale records
- Travel and entertainment records
- Vendor invoices
- Settled accident claims
- Mortgages / deeds / leases on sold property
- Records on sold stocks and bonds

Records Retention Guideline #4: Keep everyday paperwork for 3 years

It's rare that anyone is going to want to see an electric bill or credit card statement dating back more than a year. But you may choose to keep the following NON-TAX-RELATED items for up to 3 years for internal use:

- Monthly financial statements
- Credit card statements
- Utility records
- Employment applications (for businesses)
- Medical bills (in case of insurance disputes)

Records Retention Guideline # 5: Some papers don't fit easily into categories

And then there are always those "weird" papers that don't fit into any of these categories. You should retain these records according to the following guidelines:

- Car records (keep until car sold)
- Credit card receipts (keep until reconciled on your credit card statement)
- ATM and deposit slips (keep until reconciled on your bank statement)
- Insurance policies (keep for life of policy)
- Pay stubs (keep until reconciled with your W-2)
- Property records / builder contracts / improvement receipts (keep until property sold)
- Sales receipts (keep for life of warranty or life of the item on large purchases)
- Warranties and instructions (keep for life of product)
- Other bills (keep until the payment verified on the next bill)

Records Retention Guideline # 6: Organization is valuable

These documents can be removed from your active filing system once the current year has passed. Organize them using color-coded file folders or wallets for each category of paperwork. Use archive quality, acid-free or antimicrobial filing supplies to prevent damage to the files. Store your archived files by year in banker's boxes, with one label for the year and another showing the destruct date – then each year, simply shred those items that have come due. With these records retention guidelines file purging isn't actually as scary as it seems!





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