

May 2009

Dear Clients and Friends:

A major brokerage firm is recommending shareholders keep all their tax records for seven years. Here's the actual text from their brochure: "Keep copies of your tax return and other tax-related documents for seven years. (In most cases, the IRS has six years to review your returns.) After seven years, keep a copy of just your return – electronic or paper – and shred supporting paper records."

I've always recommended my clients keep only three years of tax records, so what's up?

The IRS normally has three years to audit your return. This assumes you're playing it straight and not hiding a bunch of income. If you understate your income by 25% or more, then the IRS has up to six years to start their audit. And of course if you don't file a return at all or you send in a fraudulent return, there's no time limit.

I'll keep advising my clients to hold their tax records for three years. There are some exceptions. You can shred monthly statements for any account after you've received an annual statement that summarizes activity. There are also some items you should keep beyond three years. A copy of each tax return should be kept forever. Hold on to purchase confirmations and escrow closing statements to show how much you paid for stocks, bonds, mutual funds or real estate, until you sell those items. You're going to need that information to prove the amount of your taxable gain or loss.

And now, a message from your Executor. Don't be a document hoarder! Keep what you need, but shred the rest. You can go through your own papers much faster than anyone else, and if you have questions about what to toss, please give me a call.

Regards,



Charles M. Shackelford