

February 2016

Dear Clients and Friends:

There's no reason to keep all your tax records forever, but some people do it. They have boxes full of bank and brokerage statements, check registers, canceled checks, and tax receipts. They're thinking, "Better safe than sorry." But if you know the rules, you can be safe while holding your records to a minimum.

Start by asking yourself whether there's any way you could understate your income by as much as 25 percent? A self-employed person might answer "yes," in which case the period of limitations is six years. But for anyone who's retired or works for a company and receives a W-2, the answer has to be "no." If that's the answer you'd give, the period of limitations for you is three years from the date you filed the return, or two years from the date you paid the tax associated with the return, whichever was later.

The "period of limitations" is when you can still file an amended return. It's also the time when the IRS can review your return and decide to tack on additional taxes or impose penalties. Counting back three years from 2016, this means retired folks as well as W-2 employees can now be shredding their tax receipts and other supporting materials for 2012 and earlier.

If you sell a home or a rental property, or you sell stocks, bonds or mutual funds, you have to show the amount of your investment, or cost basis, to figure out whether you have a gain or loss. So those records should be kept until the asset is sold, and then for another three years for the period of limitations to run out.

If you need a copy of a federal tax return, you can obtain it for the bargain price of \$50 by filing Form 4056. Or you can receive a free printout of all the data on the return, but not a copy of the return itself, by filing Form 4506-T.

Regards,



Charles M. Shackelford