Information Retention Policy

Adapted from the "Money Management" column prepared and distributed as part of the 360 Degrees of Financial Literacy program.

Accountants are faced with the same paper-dilemma as everyone else. We look at the myriad documents bulging from our files and wonder *"Is it finally time to throw this out?"* There is no perfect answer. Just when you think you've seen the last of a document, someone calls desperate to get their hands on it.

What to keep? What to throw? The following is a good summary and the beginning of the year is a good time to take action.

Permanent records. Personal papers they should safeguard include birth certificates, Social Security cards, marriage certificates, divorce decrees, insurance policies, veteran's discharge papers, wills, living wills and powers of attorney, real estate deeds and mortgages, automobile titles and important contracts. These and other permanent records that are difficult to replace should be kept indefinitely, preferably in a safe deposit box. They'll need them to re-establish their financial life in the even of a fire, theft or other disaster.

Tax records. What often determines the records they need to keep – and for how long – is whether they are related to their tax return. They should save tax-related documents, such as receipts that support their deductions, for a minimum of three years after they file their original return

Under normal circumstances, the IRS has three years from the date they file to audit them. If they omit an amount in excess of 25 percent of the amount of gross income stated in their tax return, the statute of limitations extends to six years. There is no time limit if they failed to file a return or filed a fraudulent return.

Checking account and credit card statements. Once they have reconciled their account statement, they may discard it, unless it shows deductible expenses. If so, they should retain their statements and canceled checks for at least three years after they file. The same holds true for credit card statements. They can discard deposit slips and ATM receipts after they verify the transactions on their statement.

Investment account statements. Monthly or quarterly investment statements can be shredded once they get their year-end statement and confirm that it accurately recaps their transactions for the year. They should keep trade confirmations, showing the purchase and sale of mutual funds and stocks. These records should be held for three years after they report the capital gain or loss on their tax return

Retirement plan statements. They should keep their quarterly statements until they receive their annual summary. Once they've compared the information, they can toss the quarterly statements. If they make nondeductible IRA contributions, they should keep the records to prove their cost basis when it comes to receiving distributions.

Pay stubs. They should keep pay stubs until they've reconciled the totals with their Form W-2. If the amounts match, they can destroy them

Utility bills. Unless they need them to support the home office deduction, they can generally dispose of utility, phone and cable bills once paid.

Home improvement records. Even though most home sale gains may be tax-free, it's still a good idea to hold onto the original purchase contract and receipts for major home improvements. They could potentially face a tax bill should they need to sell a home they have lived in for less than two years, or if the sale of a home results in a gain of more than $500,000 for joint filers ($250,000 for single filers)

Receipts and warranties. Receipts for major purchases and warranties should be kept for as long as they own the items. Receipts can be useful in proving the value of property that is lost or damaged.

Once a year, we go through our files to prune those that can be discarded. Not only is it a space-saving activity, it really does feel good to throw something away with a conscience reasonably free from remorse.