

# The News You Need to Know



Left to right: Andrew Woolley, Andrew Barninger, Christopher Miller, Steven Bell and Alan Loss.

Some additional tips to go along with this month's article about retaining documents might include:

- Making sure to create backups on a disk of any records you choose to store on a personal computer
- Considering the use of an online "vault" managed by a reliable cloud software company
- Using a cross-cut shredder for destroying unneeded paper records and junk mail containing personal information



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## What Should You Keep?

*Even with less itemizing, there are still tax documents you want to retain for years to come.*

**Fewer taxpayers are itemizing in the wake of federal tax reforms.** You may be one of them, and you may be wondering how many receipts, forms, and records you need to hold onto for the future. Is it okay to shred more of them? Maybe not.

**The Internal Revenue Service has not changed its viewpoint.** It still wants you to keep a copy of this year's 1040 form (and the supporting documents) for at least three years. If you somehow fail to report some income, or file a claim for a loss related to worthless securities or bad debt deduction, make that six years or longer. (It also wants you to keep employment tax records for at least four years.)<sup>1</sup>

Insurers or creditors may want you to keep records around longer than the I.R.S. recommends – especially if they concern property transactions. For the record, the I.R.S. advises you to keep documents linked to a property acquisition until the year when you sell the property, so you can do the math necessary to figure capital gains or losses and depreciation, amortization, and depletion deductions.<sup>1</sup>

**Can you scan documents for future reference and cut down the clutter?** Yes. The I.R.S. says that legibly scanned documents are acceptable to its auditors. It wants you to keep digitized versions of paper records for as long as you would keep the hard-copy equivalents. Assuming you back them up, digital records may be more durable than hard copies; after all, ink on receipts frequently fades with time.<sup>2</sup>

**While many itemized deductions are gone, many records are worth keeping.** Take the records related to investment transactions. It is true that since 2011, U.S. brokerage firms have routinely tracked the cost basis of equity investments purchased by their clients, to help their clients figure capital gains. Some of the biggest investment providers, like Fidelity and Vanguard, have records for brokerage transactions going back to the 1990s.

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Even so, errors are occasionally made. Why not save your year-end account statement (or digital trading notifications) to be safe? In addition, you will certainly want to keep any records related to Roth IRA conversions (which as of the 2018 tax year can no longer be recharacterized).<sup>3,4,5</sup>

The paper trail pertaining to health care should also be retained. In 2018, you can deduct qualified medical expenses that exceed 7.5% of your adjusted gross income (the threshold is scheduled to rise to 10% in 2019).<sup>4,5</sup>

Some records really should be kept for decades. Documentation for mortgages, education loans, loans from a retirement plan at work, and loans from an insurance policy should be retained even after the loan is paid back. Documentation pertaining to a divorce should probably be kept for the rest of your life, along with paperwork related to life insurance. You should also keep copies of property and casualty insurance policies, receipts of expenses for home repair or upgrades, and inventories of valuable and moderately valuable items at your home or business.<sup>3</sup>

The big picture of personal financial recordkeeping has not changed much. It is still wise to keep records pertaining to financial, health care, insurance, and real estate matters for at least a few years, and perhaps much longer.

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#### Citations.

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