

Financial Records

Save or Shred?



Some of us are pack rats and keep everything — including receipts for groceries, gas and double lattes! Others are so paranoid about identity theft that they rush to the shredder at the first chance.

There is a happy medium and a rule of thumb for what to keep and what to shred:

Tax Records

Keep records for at least seven years. The IRS has three years to audit your return if it suspects good-faith errors and six years to challenge your return if it suspects you underrepresented your gross income by 25% or more. There is no time limit if you did not file a return or filed a fraudulent one.

Home Purchase/Sale/Improvements

Keep all records related to home purchase and sale plus permanent home improvements for at least seven years after you buy/sell the property. Costs of improvement and expenses in buying/selling are important for tax purposes.

Retirement Plans

Save the quarterly statements from your 403(b), 401(k) and other plans until you receive the annual summaries. If the numbers agree, you can shred the quarterlies. Keep the annual summaries until you close the account.

IRAs

Keep records of your non-deductible IRA contributions so you can prove you've already paid taxes when it comes time to withdraw.

Bills

Review your bills annually — once you receive the cancelled check or credit card statement, you can shred the bill. Bills for big-ticket items should be kept for insurance purposes in case you have to file a claim for loss or damage.

Credit Card Records

Save your receipts until you can reconcile them with your monthly statement. Keep the statements for seven years if they contain important information related to taxes, home ownership and so on.

Checks

Review your checks annually and save those related to taxes, home improvement, mortgage payments and business expenses. Shred the ones with no long-term impact. Save your bank statements for seven years, especially if they document tax-related purchases.

Pay Stubs

If you still receive paper paychecks, hang on to them until you can review your annual W-2 form to ensure the information matches. Shred them if it does; otherwise, ask your employer for a corrected form, called a "W-2c."

