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Tax Reason Got You Down on Record Retention? Kehoe Give Four Tips on What to Save, What to Purge

Tax season requires that annual trip to the paper netherworld—that place in your home where filing cabinets, tubs or shoe boxes are chocked full of receipts, old tax returns, financial, estate and insurance records.

The sheer volume of paper in our lives can get overwhelming; how can we decide what to keep and what to shred?

Since we're resigned to reconciling files and piles until April 15 anyway, here are four tips on how to decide which records to keep and how long to keep them.

Records to keep for one year— Not every document or receipt deserves to live forever. Bank statements, credit cards bills, insurance policies that renew annually, pay stubs and monthly investment statements are examples of important documents with short-lived meaning.

When an insurance policy renews, for example, the previous receipt is worthless. Pay stubs should be kept until your W-2 is received. And verify that the W-2 information matches your paystubs before shredding the paystubs. Likewise, monthly investment statements should be kept until they can be reconciled with the annual statement.

Records to Keep Until You Sell the House—Some documents need to be saved for the life of the asset they correspond with. Annual investment statements should be kept until the account is closed. Loan documents, such as a mortgage or auto loan, should be saved until the asset is sold and the loan paid off.

Vehicle records, including receipts, title and registration, should be stored through the life of the automobile. If you own term life insurance, keep the policy information until the term expires. After purchasing a large appliance, hold onto service contracts and warranty information until you no longer own the appliance.

Records to Keep for Seven Years—The IRS has a look-back review period of three years, but tax returns and supporting documents should be kept for a minimum of seven years. If you are suspected of underestimating your income by 25 percent or more, the review period extends to six years. Fraudulent returns have no review period limitation. Scan each tax return to keep forever.

This can also come in handy when you need to look back at your past income, especially when verifying the income-based Social Security contributions you made.

Records to Keep for Life—Birth certificates, marriage licenses, divorce decrees, Social Security cards, passports, and education records should be kept in a safe place for life. Best places are fireproof boxes, safety deposit boxes or electronic files, so they can be used as a backup in case physical papers are lost or damaged and they need to be accessed away from home.

Permanent insurance policies, such as whole life insurance, also need to be saved for life, along with estate planning documents including wills, trusts, and power of attorney documentation. Save pension paperwork that details what pension option you selected.

Kehoe Financial recognizes the importance of safeguarding these papers. That is why we offer clients a personal, secure website to track their financial profiles. One feature of this website is called the Vault, which allows clients to store important documents online which are accessible anywhere there is an internet connection.

Kehoe clients, and perhaps some other financial advising firms, can now also use a personal, secure website to track their financial profiles. A Kehoe site feature is called the Vault, which allows clients to store important documents online which are accessible anywhere there is an internet connection.

The most important thing to remember about record keeping is that memories are faulty and verbal agreements often do not hold up in a court of law. Protect yourself and your family by keeping good records, as well as the right ones.

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Kevin Webb is a certified financial planner at Kehoe Financial Advisors in Cincinnati. The 32-year-old firm at www.kehoe-financial.org assists clients in developing and implementing financial strategies to help meet retirement, estate and business planning objectives, business continuation and succession planning. To contact Webb, call (513) 481-8555.