

# Storing Important Documents

## When, where, and for how long?



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Some of the practical questions our clients ask about their paperwork are “Should I keep this document,” “Where should I store it,” and “How long should I keep it?” This article will take a look at these questions as they relate to some of the financial, tax, and legal documents that we work with each day.

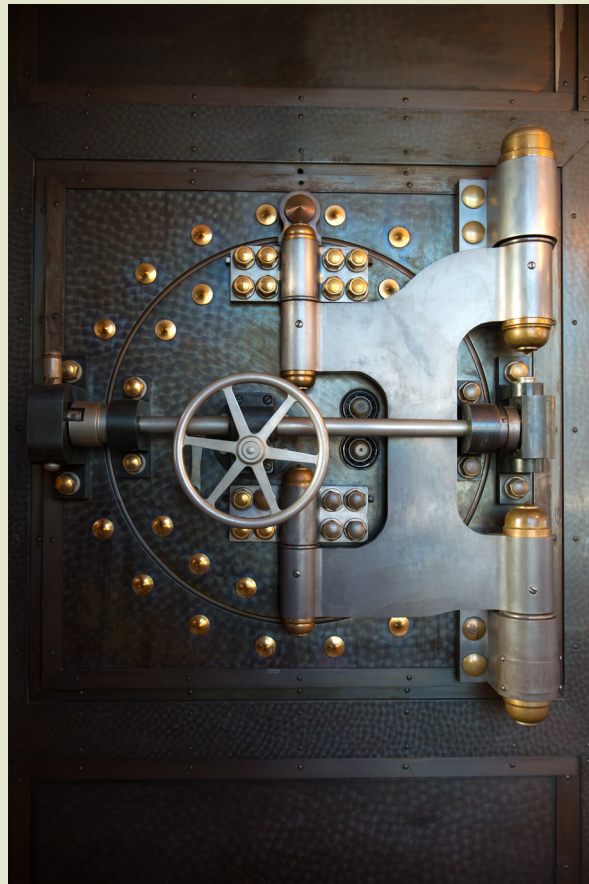
Technological advancements have made data storage remarkably easy and cheap. We should, therefore, always start by storing copies of important documents digitally — even if that means simply taking a picture with a smartphone. (Please be mindful of where you store and send these digital files, especially those with social security numbers and account information.) Technology has also made it cheaper and easier to store paper documents. A search for “fireproof document bags” on Amazon brings up a variety of options for fireproof and waterproof document storage — from a \$20 envelope-sized pouch to a variety of home safes for a wide range of costs. This sort of investment may prove critical in an emergency, so take a look at the options and choose wisely based on what it is you intend to store.

### How long should you keep things:

#### Taxes

The IRS instructs taxpayers to keep records that support an item of income, deduction, or credit shown on their tax returns until the “period of limitations” for the return (the period to amend a tax return or in which the IRS can assess additional tax) runs out. The IRS guideline is three years; here is how their website outlines the exceptions:

1. Keep records for three years if situations (4), (5), and (6) below do not apply to you.



2. Keep records for three years from the date you filed your original return or two years from the date you paid the tax, whichever is later, if you file a claim for credit or refund after you file your return.
3. Keep records for seven years if you file a claim for a loss from worthless securities or bad debt deduction.
4. Keep records for six years if you do not report income that you should report, and it is more than 25% of the gross income shown on your return.

5. Keep records indefinitely if you do not file a return.
6. Keep records indefinitely if you file a fraudulent return.
7. Keep employment tax records for at least four years after the date that the tax becomes due or is paid, whichever is later.

The IRS adds the following notes about records connected to property: Generally, keep records relating to property until the period of limitations expires for the year in which you dispose of the property. You must keep these records to figure any depreciation, amortization, or depletion deduction and to figure the gain or loss when you sell or otherwise dispose of the property. If you received property in a nontaxable exchange, your basis in that property is the same as the basis of the property you gave up, increased by any money you paid. You must keep the records on the old property, as well as on the new property, until the period of limitations expires for the year in which you dispose of the new property.

#### Legal Documents

Original copies of wills, trusts, powers of attorney, and health care directives should be kept in a waterproof and fireproof location in your home. It is common for estate documents to be signed in duplicate, so your law office may maintain a set of original documents as well. Wills and trusts are often modified by executing documents called codicils and amendments, respective-

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ly. When estate documents are modified in this fashion, it is important to keep copies of the original will or trust. Your estate planning attorney can advise you on which documents you need to keep and for how long.

One final note about estate documents: the financial power of attorney is a powerful document, as the agent acting under this power may conduct financial transactions on the account owner's behalf. Because of the power this document holds, it is common for financial institutions to challenge powers of attorney that are more than five or six years old.

### Financial Documents

Financial documents have a way of overwhelming our mailboxes, desks, shredders, and our storage cabinets, as banks, financial firms, utilities, and other service providers regularly choose paper when corresponding with their clients. So how long should we keep this stuff? Here are some general guidelines:

1. Keep your regularly monthly bills for a month. This goes for utilities and credit cards — take the time to examine each bill when it arrives each month and, once you determine to pay it, then shred the previous month's bill and file the current one.
2. Keep your quarterly/annual statements for one year. This goes for your pay stubs too. These contain a lot of information you may need around tax time, so hold on to these paper copies a bit longer.
3. Keep tax-related documents for three to seven years, as outlined above.
4. The following documents should be kept indefinitely: birth certificates, marriage licenses, divorce decrees, death certificates, property deeds (until property is sold), vehicle title (until the vehicle is sold), military service records, passports, education records, Social Security card, and insurance coverage information.

### Last step: Shred

The best cybersecurity plan in the world will not protect you from someone taking a financial statement out of your garbage between when you drop it in your kitchen wastebasket and when it reaches a landfill many miles away. Once you have determined that you no longer need documents that include sensitive data, shred them. This is another example of technological advancement making our lives cheaper and easier — Amazon will deliver a shredder to your door for \$30-40.

Technology has made it cheap and easy to store important documents. Whether you are storing paper documents in boxes or digital files on a hard drive somewhere, hopefully these guidelines will help streamline your process. Please contact our planning team if you have any questions.

