Stop saving Those Tax Records

In case you find yourself getting audited, saving your tax records is always better. But you will most likely end up keeping more documents than required, worrying that the IRS will come knocking once records are disposed. Which records should be saved then? How long should these records be kept before disposal?

The first criteria is the official statute of limitations set by the Internal Revenue Service. The IRS can audit your tax records within 10 years. They can no longer collect those taxes or audit those returns after that. This statute of limitations is put in place because basically, records can get lost. So even if you can no longer pursue refunds beyond this ten-year period, your IRS problems also essentially disappear.

The second criteria you'll wish to utilize as an outline is the three-year rule. Essentially, there is a 3-year statute of limitations for the assessment of additional taxes. For example, if you want any additional money from a refund, the 3-year period starts from the date you filed the original tax return. However, there are also some exceptions to this rule. For example, if you just reported a portion of your total income and the figure that was left unreported amounts up to more than 25% of the total gross income which was originally reported, then the limitations period will actually be 6 years. Another exception happens when you have a worthless security and endeavor to claim a loss on that security. The limitation period is then extended or increased to a period of seven years. Lastly, if you decide to not file a return, or just file a tax return which in fact is actually nefarious, then there's no statute of limitations. The IRS can then pursue you anytime.

Assess your odds of being audited before you discard documents. Throughout the entire 10-year period of the statute of limitations, it is advised to save documents that would support your case such as expenses on your home, business records, tax returns, capital gains and losses, and bank, brokerage, and employment statements if there is the probability of an audit. You will be prepared against IRS problems this way.