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Which Tax Documents to Save

Now that the tax submission deadline is over, it's time to file away all the documents you used to prepare your taxes. We would be inundated with Forms 1099s, W-2s, letters from charitable organizations, receipts, bank statements and the like. And most of us would like to keep them 'just in case'. But do we really need to keep all of our documents? The answer is no.

Here are some tax-related documents you should keep.

1. Tax returns

If you made a physical paper tax return, you should mail it by registered post and keep the acknowledgment of receipt from the IRS. And if you had e-filed your return, you should print out and retain the email acknowledging receipt of your return.

You must retain your tax returns for at least 3 years; that's the time the IRS has to audit your returns. But if you have under-reported your income by at least 25%, the IRS has up to 6 years to audit you. And if you had made a fraudulent return or did not submit a return at all, they have forever to do so. All in all, it’s wise to keep a record that you did file a return indefinitely.

2. Supporting Documents

All documents supporting your tax returns such as letters from charitable organizations, W-2s, Forms 1099s, bank statements, official receipts etc should be retained for as long as your retain your tax returns.

Furthermore, if you discuss deductions and tax strategies with your tax advisor, you ought to keep notes on them along with your returns. This would explain why you reported your taxes the way you did in the event of a tax audit.

3. Real Estate Records

If you sold a property, you should retain the relevant documents such as closing statements, sales invoices, proof of payments and insurance records for at least 4 years after the sale of your property has been concluded. And if you made any improvements to your property, you should keep a record of them, as they can lower your property gains tax when you sell it.

4. Bank and Credit Card Statements

You should retain all bank and credit card statements that support your tax deductions for as long as you keep your tax return.

5. Investment Records

If you bought stocks, shares or mutual funds, you should retain the receipt that shows the purchase price for up to 3 years so that when you sell your investments, you would know the amount of profits you made. This is important because without a true reflection of the profits, you might be taxed on the entire sale price of your investment, even if you incurred a loss.