

## How long should financial records be kept?

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**Dear Liz:** Since tax filing season is upon us, it's a good time to get rid of statements and records we don't need. How long should we keep such things as tax records, credit card statements, mortgage payment statements, utility bills, etc?

**Answer:** Most tax-related documents should be kept for **seven** years unless the paperwork concerns a potentially taxable investment or asset, such as your home or stocks bought outside a retirement account. In that case, keep the paperwork as long as you own the investment or asset, plus seven years.

For example, hang on to the paperwork created when you bought your home, such as sales contracts, deeds, mortgage paperwork, appraisals and surveys, as well as the costs of any home improvements, since they can help reduce any potential tax bill when you sell. You can dispose of all this documentation seven years after you sell the property.

Why seven years? Your greatest risk of audit is in the first three years after you file your return, but you can still be audited up to six years later if you substantially underreport your income. Since we file our returns in the following year -- last year's returns are due in April of this year, for example -- adding seven years to the tax return year will give you the year that you can toss your return's documentation. This year, for example, you can toss tax-related documents filed for the 2002 tax year.

You might want to hang on to the actual return, though. They typically don't take up much room and may come in handy. One reader who discovered errors in her Social Security statements, for example, was able to get those corrected because she still had the tax returns for those years.

If it's not tax-related, your holding times vary. You typically can ditch credit card statements and utility bills after a year, for example. Old insurance policies can be shredded after they've lapsed or been replaced, and there's no chance you'll file a claim against them.

You can dispose of your pay stubs after comparing them with your annual W-2 form. (Keep your year-end pay stub too, if it shows information that's not on your W-2, such as tax-deductible union dues.)

Many people these days simply scan all their paperwork into their computers and discard the originals. The actual paper isn't as important as the information on it, and most sources -- including the IRS -- accept electronic documents.

Just make sure to back up regularly and keep those backups in a safe place somewhere off site. A secure website or a safe deposit box are two options.

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