

Steven M. Vogt, CPA, EA

Keeping Old Tax Records

Taxpayers often question how long records must be kept and the amount of time IRS has to audit a return after it is filed.

It all depends on the circumstances! In many cases, the federal statute of limitations can be used to help you determine how long to keep records. With certain exceptions, the statute for assessing additional tax is 3 years from the return due date or the date the return was filed, whichever is later. However, the statute of limitations for many states is one year longer than the Federal. The reason for this is that the IRS provides state taxing authorities with Federal audit results. The extra time on the state statute gives states adequate time to assess tax based on any federal tax adjustments.

In addition to lengthened state statutes clouding the recordkeeping issue, the Federal 3-year rule has a number of exceptions:

- The assessment period is extended to 6 years instead of 3 years if a taxpayer omits from gross income an amount that is more than 25 percent of the income reported on a tax return.
- The IRS can assess additional tax with no time limit if a taxpayer: (a) doesn't file a return; (b) files a false or fraudulent return in order to evade tax, or (c) deliberately tries to evade tax in any other manner.
- The IRS gets an unlimited time to assess additional tax when a taxpayer files on an unsigned return.

If no exception applies to you, for Federal purposes, you can probably discard most of your tax records that are more than 3 years old; add a year or so to that if you live in a state with a longer statute.

Examples: Sue filed her 2015 tax return before the due date of April 18, 2016. She will be able to safely dispose of most of her records after April 18, 2019. On the other hand, Don filed his 2015 return on June 1, 2016. He needs to keep his records at least until June 1, 2019. In both cases, the taxpayers may opt to keep their records a year or two longer if their states have a statute of limitations longer than 3 years.

Important note: Even if you discard backup records, never throw away your file copy of any tax return (including W-2s). Often the return itself provides data that can be used in future tax return calculations or to prove amounts related to property transactions, social security benefits, etc. You should keep certain records for longer than 3 years. These records include:

- **Stock acquisition data.** If you own stock in a corporation, keep the purchase records for at least 4 years after the year you sell the stock. This data will be needed in order to prove the amount of profit (or loss) you had on the sale.
- **Stock and mutual fund statements where you reinvest dividends.** Many taxpayers use the dividends they receive from a stock or mutual fund to buy more shares of the same stock or fund. The reinvested amounts add to basis in the property and reduce gain when it is finally sold. Keep statements at least 4 years after final sale.
- **Tangible property purchase and improvement records.** Keep records of home, investment, rental property, or business property acquisitions AND related capital improvements for at least 4 years after the underlying property is sold.