

# Tax Documents: What to Shred, and What to Keep

By ANN CARRNS MAY 8, 2015

The income tax filing deadline is, thankfully, receding on the calendar. And while most people would prefer to move on to other, more pleasant activities, now is a good time to consider how you save your tax returns and other financial documents.

What should you keep, and what can you toss?

Darren Zagarola, an accountant and financial adviser with EKS Associates in [Princeton, N.J.](#), says that many people store records for much longer than necessary. Clients over 50, in particular, seem fond of stashing reams of paper records in storage boxes, he said, adding that one of his clients had saved utility bills from the 1950s. While it may be fun to marvel at a \$5 gas bill, there's little reason to keep such paper for decades.

That said, there are some documents that should be saved. Federal tax returns and supporting documentation, like W-2 forms (and utility bills, if they support a home-office deduction), should be kept for a minimum of three years. That's because the [Internal Revenue Service](#) can generally audit tax returns for up to three years after the tax filing deadline. But the agency can go back six years, if you underreported your income by more than 25 percent. (And there's no time limit on an audit for filing a fraudulent return.) So many accountants advise keeping returns and supporting documents for at least seven years.

But Kelley Long, a member of the American Institute of Certified Public Accountants' National Financial Literacy Commission, said there's an argument to be made for keeping tax returns for the rest of your life. Tax returns can be helpful when settling estates, or resolving disputes over Social Security benefits, she said.

Increasingly there's no need to keep hard copies of some financial documents, like bank statements. Many banks give online customers access to several years of

account statements, so you can print one if needed. One possible exception, Mr. Zagarola said, is if you're planning to apply for a mortgage. Lenders typically want to see three months of bank statements, so you may want to keep those readily available.

What about those pesky A.T.M. receipts? Ms. Long advises against even bothering to get a receipt for withdrawals, since any error would probably be in your favor.

For guidelines on how long to keep various types of documents, visit the American Institute of CPAs' website.

When you do dispose of paper financial documents, you should shred them rather than simply dumping them intact in the trash or recycling bin, to reduce the risk of identity theft. Anything with personal information — like your date of birth, Social Security number or account numbers — falls into the shred-first category. Ms. Long recommends using a “cross cut” shredder, which creates little pieces of paper. She then goes one extra step: “I compost it,” she said. “The worms love it.”

If you're unsure whether to dispose of something, keep it rather than shred it, said Mark Jaeger, director of tax development for TaxAct.

Here are some suggestions about saving, or getting rid of, tax records and other financial documents:

■ *Are there some records that should never be destroyed?*

Crucial documents, like birth certificates, Social Security cards, wills, life insurance policies and divorce decrees, should be kept in a safe place, like a fireproof box or a bank safe deposit box, indefinitely.

■ *What's the best way to save financial documents electronically?*

Storing documents digitally can save a lot of space. Paul Stephens, director of policy and advocacy for the Privacy Rights Clearinghouse, which focuses on identity theft, says there is no one “best” way to store documents like tax returns. Online storage, including the services offered by do-it-yourself tax software companies, provide convenient access, he said, but some people are uncomfortable keeping financial information in the “cloud.” As a compromise, he recommends storing documents in encrypted form on a flash drive, and then securing the drive in a locked file cabinet — or possibly in a bank safe deposit box, if you have one and want to be extra careful.

■ *What if I have large amounts of paper documents to shred?*

If you have too much paper for a home shredder, check with your tax preparer or your bank to see if they offer shredding services. Local recycling or community centers sometimes run free, public events with commercial shredding companies. Mr. Zagarola suggests that you watch as your documents are shredded.

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