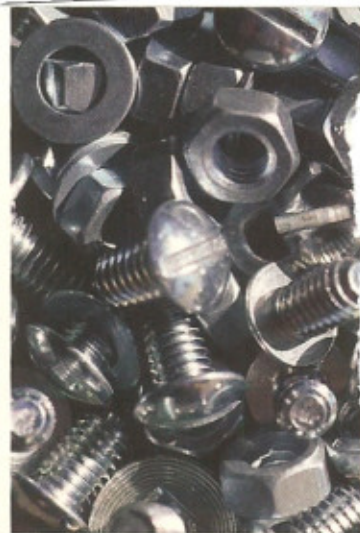


# The Great Papers Debate: Which Ones Should You Keep and for How Long?



**CPA and attorney Jim Lange helps you get organized by laying out which important documents you should be keeping and how long you should be keeping them.**

**W**ho doesn't feel like they are drowning in paper? Receipts, bills, deeds, tax returns, pay check stubs: the list goes on and on. We keep them because we are too afraid to throw them away. You never know when you might need them, and there is always the growing threat of identity theft that makes you think twice before tossing them in the garbage (invest in a shredder!). We may be keeping these papers, but many of us aren't organizing them in a way that they can be retrieved quickly when needed. If you're like many Americans, any time you go to organize your pile of important papers, its size overwhelms you, and you decide to tackle an easier task.

Don't worry, Jim Lange, CPA, attorney, and author of the new book, *Retire Secure! Pay Taxes Later: The Key to Making Your Money Last as Long as You Do* (Wiley, 2006, ISBN: 0-470-04354-7, \$24.95), says there is a way to chip down that paper pile so that organizing your important documents won't seem like such an uphill battle. He wants to set you straight on which documents you should keep and how long you should keep them.

"Many people have no idea which important documents they should keep and which they shouldn't," says Lange. "So they end up either keeping everything or throwing away documents that they should have kept. Sim-

## **Documents to Keep for Life:**

### *Tax related*

- Copies of 1040 tax returns with W-2 stapled to the form (may be useful for correcting errors in your Social Security earnings if mistakes are made)
- Tax /Legal/Bank/Insurance correspondence
- Non-deductible IRA contributions
- Year-end financial statements (good for long-term tracking)
- Important notices/plan amendments for IRA and retirement savings
- Cost and/or basis of investments either bought, inherited, or received as a gift

### *Life and Home related*

- Birth certificates
- Marriage licenses
- Divorce papers
- Death certificates
- Military records
- Copies of your will, Power of Attorney etc.
- Insurance claims/insurance policies
- Major debt repayment records
- Loan/Mortgage papers
- Updated household inventory

## **Documents to Keep as Long as You Own a Certain Item:**

- Deed to house
- Home improvement records (keep for seven years after the sale) and escrow closing documents
- Car title and purchase papers or lease agreement
- Bills for major purchases
- Cost and/or basis of investments either bought, inherited, or received as a gift until sold, donated or gifted
- Tax related assets until the period of limitations expires upon disposition

## **Documents to Discard after Seven Years:**

- Tax write off related to worthless securities and non-business bad debts
- Bank records related to taxes and business expenses
- Pay check stubs that reflect additional tax deductions e.g. charitable contributions
- Canceled checks/receipts with tax implications (alimony, mortgage interest charitable contributions, and retirement plan contributions)
- Credit card statements if they reflect tax related expenses

## **Documents to Keep for One Year:**

- Quarterly statements of retirement plans, IRA etc. (cross check at the end of the year with annual statement for accuracy – keep the annual, shred the quarterly)
- Bank records with no long term importance
- Bills (with no tax related implications) – once your check has cleared, the bills can be shredded but you might want to keep the bill for one year





ply knowing the time frame for keeping certain documents is the first step to getting organized."

As for getting organized, Lange says now is as good a time as any.

"April may seem like it's eons away, but you will save yourself a lot of headaches with just a bit of organization," suggests Lange. "The best way to

get organized is to start going through all of those important papers that have been piling up all year."

Below, Lange has compiled a summary of tax and accounting documents with rough guidelines of how long you should keep them. Keep the list and post it somewhere – preferably where it won't get buried.

#### **Documents you never want to part with.**

There are some documents everyone knows to keep for life: birth certificates, marriage licenses, and wills, for example. And others that you may know are very important, but aren't quite sure what their shelf life should be, particularly those tax related documents, such as tax returns, the cost basis of investments, and records of non-deductible IRA contributions. The bottom line, you should keep them all. "These documents may not need to be readily accessible, but you should definitely find a safe place for them," says Lange. "You may want to keep birth certificates, death certificates, wills, and insurance policy information in a safety deposit box at your local bank."

#### **Records that should go out with the old.**

This category involves documents such as house deeds and car titles. With these documents, the general rule is that as long as you are responsible for the item related to the document, you should keep its papers. What falls into this category? "These documents are high on the list of important papers," says Lange. "But there is no need for you to keep them forever. When you sell your house, chances are you will be buying a new one and will therefore have a new deed to keep up with. Don't let the old one clog your filing cabinet."

#### **Records with a seven-year itch.**

These are documents that you can get rid of after seven

years. When filing these you may want to file them by date to ensure you don't keep them longer than necessary. Documents in this category include: canceled checks; receipts with tax implications (alimony, charitable contributions, mortgage interest and retirement plan contributions); and credit card statements if tax related expenses are documented.

#### **Records to toss after the ball drops.**

Generally the fastest growing piles of documents are those records that should be purged at the end of every year. These include quarterly statements of retirement plans, bank statements and bills with no long-term tax importance. "These documents generally make up the bulk of those that are piled up in your home or office because they are coming to you repeatedly throughout the year," says Lange. "It's silly to keep them indefinitely. After a year, they become trash and that is where they should go." Just remember, with the increasing threat of identity theft – shredding, rather than tossing, is the way to go.

Even if you know which papers to keep and which you can get rid of, there will still be a lot of important documents for you to manage. What's the best way to keep everything organized? If you have access to a computer and a scanner, you can make electronic backup copies of all paper documents by scanning them into your computer and saving the file to one of those handy-dandy portable memory sticks.

"Then in the event of an emergency you can simply grab that little memory stick and know that you will have numbers and records at your disposal," says Lange. "The sticks are also a great place to store your information for online accounts. Some of the larger capacity memory sticks also come with password protection so you don't have to worry about other people getting access to your information. It may be one of the best little investments of your time and money."

"As for the hard copies of these important documents, be sure to keep them in a fire proof storage box," continues Lange. "The best case scenario would have you saving your information both electronically and in hard copy form. Either way, be sure to develop a filing system that is easy to use. If your system is too complicated, you won't keep it up. Once you're organized, you will be thrilled with the peace of mind that comes with knowing you have all of your important documents organized and at they are ready any time you need them." ■

James Lange, CPA/Attorney, is a nationally recognized IRA, 401(k), and retirement plan distribution expert.

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