



## Keeping Financial Records

### Imagine your dream coming true.

You've finally sold that house you've had on the market for the past three years and at the price you wanted! Now, it's time to file your tax return and you can't find any receipts or canceled checks for all the home improvements you've made over the years improvements totaling over \$25,000. Suddenly, that dream becomes a nightmare. Without a CPA to help you reconstruct the records, your sloppy filing habits may cost you a \$25,000 deduction you could have made on the taxable profit from the sale of the house. After desperately sifting through desk drawers and shoe boxes to find these records, you probably promise yourself to "find a better way" to handle your paperwork.

That time is now. Reliable record keeping is much easier than rummaging through a disorganized mess. Simple organization is the only thing standing between you and well-ordered financial records. When organizing your records, always remember this: organization takes a minimal amount of effort and will yield a maximum amount of peace of mind.

### WHY IS CAREFUL RECORD KEEPING SO CRUCIAL?

Personal records are a necessary part of our lives. Birth registration has been mandatory since 1920. Since there are many times when you will need to present your birth certificate, it's important that you keep it in a safe place. Death certificates also need to be filed carefully. Other documents falling into this category include marriage certificates, divorce papers, adoption papers, military service papers, citizenship records or other documents that are court or government recorded. Consumer records are needed as documentation for your product purchases, both large and small. Payments for services, such as home improvements, should be carefully documented and recorded as well. With an organized system, your tax records will remind you to claim deductions on your return and may end up saving you tax dollars. Keep in mind that items such as interest deductions, Unreimbursed business expenses and charitable contributions may require extensive records to support them on your federal tax return. Individuals with incomplete records would find it difficult to answer Internal Revenue Service inquiries. In summary, organized record keeping will enable you to confidently handle tax or other matters arising from financial transactions.

### SETTING UP A SYSTEM

It is important to remember that record keeping systems are as unique and different as the people using them. There is no "ideal system" that will work for everyone. For most individuals, an essential ingredient and good way to begin is by setting up a checking account. Many consumers find that a canceled check serves as effective support in a dispute. For major purchases, disputed transactions and checks related to legal matters, checks should be saved indefinitely. Consumers should also retain checks that evidence tax-deductible expenditures until three years after the date the return was filed (or due date if later). Some banks don't provide customers with canceled checks, but do keep other records to document the checks drawn against the account. In any case, a properly maintained checking account should record all your income and expenses. When designing your record keeping system, always remember simplicity and consistency. Avoid a system that is too intricate to remember easily. You'll become unsure of where to file your documents. Also, don't let your financial documents pile up over a period of time. Maintaining your records should become a part of your routine so you can avoid searching for lost records in piles of old forms and receipts.



## **MAINTAINING YOUR RECORDS**

It's important that you find a central location for your records. They should be easy for you to reach so that you're inclined to maintain and update them on a regular basis. Remember to prepare a letter listing all important documents and their location. Give this list to your next of kin, your attorney or CPA, trustee, if any, or executor of your will and keep copies on file both with the records and in a separate place. Avoid storing your records in a place where they can be stolen or damaged by natural elements. Your records should be placed in a fireproof unit. For documents that would be difficult to replace, consider a home safe. Some individuals choose to keep their vital records in a safe deposit box at a financial institution.

## **CATEGORIZING YOUR RECORDS**

Most records can be categorized as temporary or permanent. Temporary records are primarily those needed to support your income and expenses and should be kept for six years. Permanent records are primarily those needed to support the cost of assets acquired and investments made. These records should be kept for life or until three years after the due date for the tax returns that include the income or loss on such assets as investments when disposed of or sold. Once you've organized your files, don't fall into the trap of saving unnecessary documents. Clean out your files periodically. Items such as accident reports and service contracts need to be kept for six years and then can be discarded.

On a more permanent basis, consumers should retain brokerage and fund transactions, stock option agreements, all insurance policies, certificates of deposit, custody agreements and divorce decrees. House records, including deed, title, insurance policy, receipts, canceled checks for capital improvements and documents pertaining to the purchase and sale of a house, need to be saved as well. Also, falling into the permanent category are your power of attorney, retirement and trust agreements and your will. Photos or a videotape of your valuables can serve as permanent records that are very helpful in the instance of a robbery or fire. And, include a list of your financial assets and financial advisers.

## **CONSUMER RECORDS**

To properly track your consumer transactions, be sure to save contracts, receipts showing the date and amount of purchases, and product and service warranties. Warranties should be filed until they expire. For all credit records, retain any loan agreements, purchase slips and billing statements until the debts are paid off. Maintain a list of credit card account numbers and phone numbers in the event the cards are lost or stolen.

## **PERSONAL RECORDS**

For most personal records, all you need to save is the document itself, such as birth, marriage and death certificates, adoption papers or military service documents.

## **AFTER YOU'VE ORGANIZED YOUR RECORDS**

Organizing your records may not be the most exciting task you undertake, but the rewards are considerable. Organized records will give you a full picture of your financial identity and you will be able to handle tax or financial disputes with facts to support you. This brochure was written to supply you with broad guidelines to help you begin organized record keeping. If you have more specific questions, you may wish to consult a CPA or other qualified financial adviser. He or she can help you examine your records and show you that your records of the past may be the best way to look into your financial future.

## **TAX RECORDS**

You should keep proper records of all income, including all deposits made in your name. When



documenting expenses, keep in mind that tax reform has limited the deductibility of many types of expenses. The deductions that remain require clear documentation. The responsibility for the accuracy of the return continues to rest on the shoulders of the individual who filed it. Listed below are some records you'll need to document your income and support the deductions you claim. Be sure to save the documents listed in parentheses.

## **INCOME**

- Records of earnings
- (W-2 forms)
- Records of interest, dividends and state income tax refunds (1099 forms)
- Records of self-employment (1099 forms, invoices and receipts)
- Alimony receipts (divorce decree, your ex-spouse's Social Security number and bank statement)
- Capital gains and losses
- (brokerage confirmation slips, receipts showing date acquired, cost and gross selling price and Forms 1099-B)
- Real estate rental income (lease agreements, closing statements with the cost of property, contracts and canceled checks reflecting improvements made and information on depreciation from previous tax years)
- Distributions from IRAs and retirement plans (all forms until all funds in the account are withdrawn)
- Distributions from other tax-deferred plans (canceled checks, withholding statements and employer-supplied documents)
- Partnerships, S corporations, estates and trusts (K-1 forms and all investment records), nontaxable income and gifts (all information concerning Social Security, nontaxable receipts, records of the donor's basis, fair market value at date received and tax paid on the gift if applicable)

## **EXPENSES**

- Retirement plan contributions (contribution statements, a copy of the plan and statement of actuarial assumptions)
- Alimony payment (canceled checks, divorce decree or agreement and your ex-spouse's Social Security number)
- Medical/dental expenses (canceled checks, receipts, copies of bills, doctors' statements, prescriptions, insurance policies, records for amounts deducted by employers for medical insurance and expenses for which you were reimbursed, car expenses and gas mileage)
- Taxes (W-2 forms for state income tax withheld, state tax return for additional tax paid and canceled checks, copies of estimated state tax returns and tax documents supporting deductions for both real and personal property taxes)
- Interest expense (all documents including statements, notes and canceled checks which outline the terms of a loan)
- Charitable contributions (canceled checks, appraisals, any receipts recording the name of charity and amount and date of gift, and the value of any items received in return, out-of-pocket expenses and gas mileage incurred while providing services to the charitable organization)
- Casualty/theft losses (police and insurance reports, receipt of the item and any documentation showing the fair market value when destroyed or stolen)
- Unreimbursed business expenses (credit card slips, all receipts, canceled checks and a detailed diary of expenses)