

# Setting Your Financial Records Straight



America Counts on CPAs

American Institute of Certified Public Accountants

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8004-311C

## Advice from CPAs

## Organized Financial Records Pay Off

If looking for an important document sends you searching through shoeboxes and overstuffed drawers, your financial records are in need of a makeover. Time spent gaining control of your financial records will pay off in the long run. Good recordkeeping can —

- Make tax preparation easier and remind you of deductions you might otherwise overlook. Back-up documentation may save you taxes, interest charges and penalties if the Internal Revenue Service (IRS) ever questions your return.
- Give you a better handle on your overall financial position and help your CPA (Certified Public Accountant) identify financial and tax-planning opportunities.
- Provide loved ones with a roadmap to your financial affairs if you die or become incapacitated.

### Start a Filing System

The best way to ensure your financial records are in order is simple: start a filing system. Begin by finding a convenient place for “current” files, those you will be adding to regularly. A filing cabinet works best for most people, but a plastic box or accordion files will do.

Next, designate an area in your home for old or “dead” files — those you need to keep but aren’t likely to access on a regular basis.

The third component of a well organized record-keeping system is a safe deposit box. Use it to store any documents that are costly or difficult to replace.

### What to Keep and for How Long

While your recordkeeping system will be unique to your personal circumstances, certain subjects are universal. For most Americans, the six categories that follow make up much of their financial paperwork. Since incomplete or sloppy records in these areas can cause you major trouble and expense, getting them under control is a good place to begin.

## List of Basic Records

### **Income**

- Form(s) W-2, 1099, K-1
- Bank statements
- Brokerage statements

### **Expenses**

- Sales slips, invoices and receipts
- Cancelled checks or other proof of payment\*

### **Home**

- Closing statements
- Purchase and sales invoices
- Proof of payment
- Insurance records
- Form 2119 (if you sold a home before 1998)
- Home improvement records and their costs

### **Investments**

- Brokerage statements
- Mutual fund statements
- Form(s) 1099 and 2439

\*As a result of the Check 21 Act, many banks and credit unions may no longer return cancelled checks to consumers, but instead will send images or descriptions of the original checks with monthly statements. The new Act authorizes a “substitute check” (a printed, electronic image of the original) as the legal equivalent of the original for all purposes. Banks may charge a fee for printing substitute checks, so request these only when necessary. Be sure to check with your bank or other institution to find out what their policies are in light of the Act.

## **Tax Documents**

Your tax file should contain anything you'll need to prepare your next tax return. This includes receipts and cancelled checks that support deductions and credits, as well as all income records such as W-2 and 1099 Forms.

Returns and supporting documentation from previous years can be placed in your dead storage area at least until the chance of an audit passes. The IRS generally has three years to examine your return, though the limit increases to six years if the agency believes you underreported income by more than 25 percent. No limit exists if you failed to file or filed a fraudulent return. To play it safe, CPAs advise keeping your tax returns for six to 10 years.

## **Banking Records**

Keep separate files for checking and saving statements. In most cases, you should save your statements for a year until you can double check them against the year-end 1099 Form the bank sends you detailing any interest earned.

Cancelled checks can also be discarded after a year, with a few exceptions. Checks that support tax deductions, like those for charitable contributions or tax payments, should be moved to your tax files and saved for as long as you keep the returns they support. Keep indefinitely, and move to the appropriate files, all cancelled checks related to a home purchase, capital improvements to your home and non-deductible IRA contributions.

## **Investment Reports**

As investment records have a long shelf life, keep separate files on each account you hold. The sale of a stock or mutual fund triggers a capital gains tax bill and you must be able to substantiate your profit or loss on the investment. To do so, you need detailed records on purchases, commission charges, any reinvested dividends or capital gains, as well as sales prices. At minimum, you must keep this information until three years after you file the return reporting the sale. And while brokerage houses may

maintain this information for you, remember, you are ultimately responsible for proving the accuracy of your return if you are questioned by the IRS.

## **Retirement Plan Information**

Be sure to keep files on all of your retirement plans including Individual Retirement Accounts (IRAs), 401(k) plans, and any employer pension programs. Each should contain enrollment papers, statements and contact information.

## **Insurance Policies**

Copies of all current insurance policies should be maintained in separate files, containing policy numbers, issuing companies, the agents' names, amount of your coverage, as well as the names of those covered and beneficiaries. If you need to file a claim, you will appreciate having this information at your fingertips.

## **Home Records**

Your home is probably your biggest investment and largest generator of paperwork. Start a file on the purchase of your home, including sales agreements, closing documents, and copies of mortgages and appraisals.

Begin another file containing documents related to capital improvements. These records are crucial because improvements increase the cost basis of your home and reduce the amount of your gain when you sell. And while profit of up to \$250,000 (double if married) is not taxable under current law, the rules could change at any time. Keep all your home renovation records to protect your investment.

Another file should contain an inventory of your belongings. Include brands and model numbers, purchase prices and replacement costs. A video recording or photos of your possessions would be an invaluable tool for insurance purposes. Be sure to include a copy of your list and video in your safe deposit box in case your home is damaged or burglarized.

## **What Belongs in Your Safe Deposit Box**

Documents that are difficult or costly to replace should be kept in your safe deposit box. Many personal records fall into this category including birth, death, and marriage certificates, as well as adoption, divorce and citizenship papers. Your safe deposit box should also hold any records of ownership, including stock and bond certificates, as well as the deed to your home and titles for your cars.

Your signed, original will can be stored in your safe-deposit box. However, access to your box could be delayed after your death so keep a copy at home in a clearly marked file. An additional copy should be held by your attorney. If you make changes to your will, destroy outdated versions to avoid confusion.

## **Personal Financial Overview**

With your recordkeeping system in place, CPAs recommend preparing a notebook explaining it in case someone else needs access. Be sure to include the location of important documents as well as insurance policy information. You should also list bank and investment accounts, as well as all credit accounts with account numbers. Also, you may want to list information on other debts, including mortgages and car loans. Give a copy of this notebook to your next of kin, attorney, CPA financial planner and trustees, if any.

## **Maintaining Your Records**

With every document having its place, maintaining your filing system should be easy. A paper shredder and trash can will also help you stay organized. Make it a habit to regularly discard paperwork that is no longer relevant. Additionally, a thorough, once-a-year overhaul to weed out outdated information will keep overflowing files to a minimum.

## **Taming the Clutter**

When weeding through your papers, consider the following to open space for paperwork yet to come.

### **Discard**

- Most cancelled checks more than a year old
- Credit card bills more than a year old
- Outdated insurance policies
- Old annual reports and proxy statements
- Information on cars, boats, appliances and electronics you no longer own
- Pay stubs after checking against your W-2 Form for the year

### **Move to Long-term Storage**

- Filed tax returns, with supporting documentation, for at least the last six years
- Military records
- Records for non-deductible IRA contributions
- Information on former employers' pension plans
- Death certificates after the estate has been settled

### **For Your Safe Deposit Box**

- Birth and marriage certificates
- Adoption, citizenship or divorce papers
- Your signed, original will
- Stock and bond certificates
- Deeds and records of ownership