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How Long Should I Keep My Paperwork?

Before you clear out your files, know the rules on document retention.

Space is at a premium. You have shoe boxes, folders, and envelopes full of old records used to prepare years worth of old tax returns. It's time to clean out the garage or your office or wherever you keep your records. The logical question to ask is, can I get rid of some or all of these records or saying it another way, how long must I retain records for tax purposes?

Space is always at a premium. You have file cabinets, folders and envelopes full of years' worth of old tax returns and other paperwork. It's tempting to clean out the office and just toss all of that stuff, but you don't want to get rid of documents that you may need later. Here are some guidelines on which papers to keep, and how long to hold on to them.

TAX RETURNS: In the case of business tax returns (such as those for a corporation or partnership, or a Schedule C on an individual tax return), the recommended retention period is typically forever, or until the business ceases to exist plus three years from the filing of a final business tax return. This stems from the obligation to substantiate items contained in a return, including the tax basis in a business entity or in business assets for the purposes of calculating gain or loss at the entity, partner or shareholder level, or simply for owners of business assets, upon disposition.

When records are no longer needed for tax purposes, before discarding them, you should consider whether you need to keep such records for nontax reasons. For example, it may be wise to keep purchase invoices for significant assets for insurance purposes, in case such assets are ever destroyed or stolen. You should contact your insurance company to discuss what records, if any, should be retained to support potential future claims.

BILLS: Bills for equipment and other assets the company uses should be kept for the useful/depreciable life of the assets plus three years. Depreciation schedules should be retained permanently. All other bills for current expenses, such as rent of a building, should be kept for three years. Tax audits take place within three years of filing a return (longer if there is fraud involved), so it's a good idea to keep anything you'd need to document items included in a tax return.

PAYROLL STUBS, W2s: Employer payroll records and summaries should be kept at least seven years. All W2s should be retained indefinitely to substantiate income for pension and Social Security coverage.

CORRESPONDENCE: Legal correspondence (such as contracts, mortgages, deeds, patents and related files) with potential future impact should be kept permanently. (Contact your attorney for guidance on what has potential future significance). General correspondence should be kept at least two years.

FINANCIAL STATEMENTS: Financial statements should be kept permanently, along with capital stock and bond records, ledgers and transfer schedules. The same holds true for retirement and pension records. If your business is in a regulated industry, the rules on keeping documents may be very different; it's important to contact your attorney for specific recommendations. Finally, if you have done your cleanup and still find you have too much paperwork, consider saving your paperwork electronically.

Philip Wasserman is Director of Tax Services at RSM McGladrey an accounting, tax, consulting and business advisory firm. Daniel Markovitz is president of TimeBack Management, a training firm that uses Lean manufacturing methods to make executives and corporations more efficient. You can reach him at dan@timebackmanagement.com.