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I recently spent several hours disposing of some old financial records. I was emotionally spent, my back was hurting and my cheap shredder broke down. How long do I have to keep cancelled checks and what about brokerage investment statements? I thought to myself. “There has to be a better way?” In the area of record retention, more is not always better.

Why is it important to keep financial records? After some serious personal and professional soul searching, I came up with three basic reasons for retaining personal financial records.

- To support financial payments, claims and taxes. This would include items such as monthly bill payments, warranty claims and tax payments.
- To provide a historical record such as monthly or annual expenditures for personal income, household expenses, and investments.
- Nostalgia! Your parents said it was a good idea and sometimes it just feels good to rediscover how much you paid for baby diapers 15 years ago.

Unfortunately, in today’s world as we move into the supposedly “paperless society,” it seems that we are being inundated with more paper than ever before. What do you really need to keep and are there any guidelines?

Record Retention Guidelines

There are no hard and fast rules for maintaining personal financial records. The following are offered as guidelines but you will have to make adjustments to fit your own situation. The most important issue is that you have a plan for maintaining and properly disposing of your financial records and that you and your family do it consistently.

Tax Returns and supporting documentation - The general guideline is seven years. Under normal circumstances, most audits occur within three years of filing. In my own personal

situation, I maintain my tax records in a permanent file. (nostalgia!)

Retirement Plan/IRA Statements - Most annual statements will record the activity for the year. Keep the annual statements in a permanent file and discard the monthly or quarterly statements upon receipt of each annual statement.

Investment Accounts/Brokerage Statements - The big question on investment accounts is the basis (tax cost) for individual securities. Most annual statements will record the activity for the year. You will need to retain the tax cost information until you sell or transfer the security and file the related tax return.

Home Mortgage and Auto Loan Payments - Keep the monthly payment records until you receive your annual payment statement.

Major Purchases and Home Improvements - Major purchases such as a refrigerator, video camera, etc. have a related product warranty period that requires proof of purchase if there is a problem. Additionally, major home improvements, such as a new furnace, roof or sprinkler system have warranties that require proof of purchase. Keep these records for at least as long as the products are in warranty

Bank Statements and Cancelled Checks - After you have reconciled your account, keep bank statements and non-tax related cancelled checks for one tax year. Most banks, for a fee, can provide copies of prior statements and scanned images of cancelled checks.

Credit Card statements and receipts - For non tax related purchases dispose of after one tax year.

Paycheck Stubs - If your paycheck stubs reconcile with your W-2 forms, then you can destroy old paycheck stubs after one year.

Regular Monthly Bills - These would include non-tax related utility, landscaping, minor purchases, cash receipts, etc. Dispose of after one year.

Computer Files - If you use a computerized bookkeeping system such as Quicken or Microsoft Money, backup your data files at least monthly to a CD ROM of floppy disk.

Record Disposal

After you have identified financial records for disposal, just throwing them in the trash is not a good idea. Anything that is put in the garbage can is now public property. Identity thieves are alive and well in our society and may be just waiting to dive into your trash can to steal your sensitive information. My recommendation is to invest in a reliable paper shredder and use it to dispose of your sensitive personal information.

A reliable financial records retention and disposal system does not have to be elaborate to be effective. Get started today to help insure that your family will be on the road to financial success.

The information provided is a guideline and should not be considered professional or legal advice. Please consult a tax professional or attorney for specific legal advice.

Visit www.shinnfinancial.com for more information or to send your comments or questions to shinnm@financialnetwork.com.
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