



Time to Dispose of Those Tax Returns?

By: P. Haans Mulder
Attorney at Law

It is that time of the year again. If you're like most taxpayers, you either just recently finished filing your income tax return or you filed an extension so that you can postpone it until September. In going through this process, you've undoubtedly been reminded of all the tax returns (and records) that are in storage and are taking up valuable space in your business, or at home. If that's the case, you may be looking to do some "spring cleaning" and dispose of the returns you no longer need. But, which ones should you keep and which ones can be shredded and recycled?

Under the tax law, the answer to this question depends in large part on what's called the statute of limitations. This is the time the IRS can go back and assess unpaid tax, interest, and penalties. On the positive side, it's also the time you can amend a return and claim a refund. Here are some general guidelines to be aware of. The number of years referred to below is the time after the return is filed.

Keep your returns for three years if:

- You may owe additional tax or if you later amended a return and filed for a refund or a credit. Keep in mind that this rule won't apply if either you didn't report income that's more than 25% of your gross income in that particular year, or you took a very aggressive position that is potentially fraudulent.

Keep your returns for four years if:

- It's an employment tax record.

Keep your returns for six years if:

- You didn't report income that you should have and it's more than 25% of the gross income shown on your return for that year.

Keep your returns for seven years if:

- You filed a claim for a loss or deduction as a result of a worthless security or a bad debt.

Keep your returns indefinitely if:

- There is a chance you have filed a fraudulent return.

Besides these general guidelines, keep in mind some other rules regarding certain property you own. If you sell some property, keep these records as long as the statute of limitations applies. In other words, refer to the rules above with the beginning year being the one you sold that property in. Also, if you purchase property in a non-taxable exchange (the most common being a like-kind or 1031 exchange), you'll need to keep those records until you later sell the replacement property.

Finally, it's important to know that these rules apply to the tax laws. You should also talk to your insurance agent to see if it is necessary to keep your returns (and records) for a longer period for insurance purposes. Follow these simple rules and they will help you get organized this spring.

IRS CIRCULAR 230 NOTICE: To ensure compliance with IRS regulations, we inform you that, any tax advice expressed in this communication is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax penalties or (ii) promoting, marketing or recommending to another party any transaction or matter addressed in this article.

Cunningham Dalman, P.C. is a full service law firm located in Douglas, Michigan, as well as in Holland, Michigan. Our attorneys possess skill and experience in a broad spectrum of areas of practice, and have proudly served the lakeshore community for over 100 years. Contact us at 269-857-7879.