

The Detroit News

Detroit, MI

April 19, 2010

circ. 167,849

Save or shred? You don't have to hold onto every receipt, tax form

You don't have to hold on to every receipt and tax form

BRIAN J. O'CONNOR
Detroit News Financial Editor

Now that Tax Day has passed, relieved taxpayers are wondering what to do with the mountains of account statements, canceled checks, receipts and other documents in the mountains of paper cluttering dining room tables across our nation.

Do we save it, shred it or pile it in the yard and douse it with lighter fluid, gleefully cackling, "The IRS will never catch me now!" According to the experts, it's a little bit of all three.

"People hold on to things they can get rid of on a monthly basis, such as ATM receipts," says Mandy Walker, senior project editor for Consumer Reports Money Advisor. "It's definitely too much stuff."

A poll by Money Advisor last month found that nearly one-quarter of those surveyed had either lost or forgotten critical paperwork, while 16 percent said they'd lost money or incurred a charge because of poor paperwork organization.

"If you're disorganized about your paperwork, you can lose a significant amount of money on late fees and interest charges," Walker said.

Not to mention the panicked three hours you spent tearing your hair out last Wednesday night looking for an interest statement to attach to your tax return.

Financial paperwork worth saving falls into three categories: stuff you keep for a little while, stuff you may need for reference for the next several years and stuff that you want to hold on to forever.

Short term: As bills and other action items come in, put them in a current folder or even make a note on the calendar about when to deal with them. Other documents, such as ATM receipts, monthly billing statements and other routine paperwork can be discarded after you've checked them against your bank and credit-card statements or paid them.

That includes monthly or quarterly investment account statements, once you've checked them and verified any transactions -- but hang on to the annual investment statements for as long as you've got the account. When it comes to canceled checks or other documents, keep only the ones you need for tax records or warranty claims.

"People keep all their bills from the trash collector or the dry cleaner and never do anything with them," Walker says.

Medium term: Hang on to receipts, warranties and instructions for household furnishings and appliances, as well as records on any current loans. Hang on to mortgage papers as long as you live in the house, since you may want surveys or title insurance policies when you go to sell.

For tax records, seven years is the rule of thumb for ultimate safety. The IRS can challenge your return for up to three years, but if the agency thinks you under-reported your income by 25 percent or more, it goes up to six years. If you want to claim a loss on investments, it's seven years. If the IRS thinks you committed fraud, there's no limit on how far back the agency can go, so permanently hang on to records that prove any particularly dodgy deductions.

Also retain all annual account statements on investments that are current, such as Individual Retirement Accounts, and on any where you'll need to show the basis for calculating the tax on gains.

Forever: This is really the big stuff -- wills, estate planning documents, marriage, birth, divorce, death certificates, as well as any cash-value life insurance. All that stuff needs to go into a fireproof safe or safety deposit box, and you should add any current life insurance policies and uncashed saving bonds.

Another option to hanging on to a lot of your permanent financial data is a virtual safety deposit box, either one you create yourself and burn to a CD, keep on a backed-up computer or protect through an online service. InformationSAFE introduced a product that collects the info you need to put your hands on down the road or leave behind for a loved one. The program (available at <http://www.infosafe.com> > www.infosafe.com) is \$49.95 for a personal computer version or \$49.95 a year to have the data stored online, including any types of documents. PC data can be backed up online for \$29.95, says Arnold Lewis, president of InformationSAFE.

"A few years I realized that if something happened to me, my wife would have no idea of all the things that were just in my head," Lewis says. "It wasn't even written down so she could find it."

But some stuff isn't even worth hanging on to for five minutes, notes Elyse Kaye, senior brand manager at Black & Decker Safety & Security, where she promotes document shredders.

"Americans get 4 million tons of junk mail a year," she says. "The average person sorts through it and either dumps it in the trash or puts it on the counter and says 'I'll deal with this later.' That's how you end up with piles and piles."