

How Should I Organize My Tax Returns and Other Financial Documents?

How do you keep track of your tax returns and other financial paperwork? Do you use a shoebox at the bottom of a closet? A file cabinet stuffed with every piece of paper you've ever received from employers, lenders, credit card companies and the IRS? Or, do you perhaps stuff everything under your mattress?

Keeping track of tax returns and financial documents is easier than you think. If you have a file cabinet, you're halfway there. Buy some different colored files and start organizing. Pick separate colors for loans, major purchases, bank accounts and tax returns.

If you don't want to invest in a file cabinet, you can still keep your easily recognizable and easy-to-use color-coded files in a banker's box, plastic tub, or desk drawer.

Find a way to organize your paperwork now, and if you're called for an audit, need to apply for a loan or are asked to submit financial paperwork, it will be as simple as pulling out the correct files.

If you're running out of space or want an extra backup of your paperwork, invest in an inexpensive scanner to create a digital archive. These days you can find a scanner at most major office supply chain stores for less than \$100. By scanning and saving all your financial paperwork on your computer, you're backing up all of your financial information and giving your financial security a little extra insurance.

How long should I keep my financial records?

Tax Returns

According to the IRS, a typical audit happens three years after the original tax return, but you can also get audited up to six years after the tax return was filed. You should save your tax returns for at least six years after the return was filed, if not indefinitely, since the only way to prove you filed something correctly is to provide the tax return itself. If you filed an unusually complicated tax return, you're self-employed or you think anything on your tax return might trigger questions from the IRS, it's even more important to save a copy. If space is an issue, use a scanner to keep digital copies.

Major Purchases

For cars, boats, electronics, jewelry, real estate and other major purchases, keep the proof of purchase and any corresponding warranty paperwork as long as you own the property—and up to seven years after you resell or otherwise no longer own the property. If you have an appraisal or other paperwork that pertains the property, make sure to keep it all together. It's always a good idea to keep paperwork related to a particular purchase stapled or clipped together.

Loans

Keep physical copies of all documents until the loan is paid in full. After you've finished paying off the loan, keep a digital copy as your proof of payment. If you receive a payoff letter or paperwork indicated you have paid off the loan, keep that with your loan documents.

Insurance Policies

Keep a hard copy of all your insurance policies for as long as the policy is valid plus five to seven years after the policy ends. For life insurance policies, keep a physical copy of the policy until the insurance term is over.

Credit Card Agreements

Keep a physical copy of cardholder agreements for as long as you have the accounts open and active. If you have cards open that you don't use, keep them in a safe spot where you won't lose them or have them stolen.

Bank Accounts

Keep a hard copy of all account agreements. Keep blank checkbooks in a lockbox or safety deposit box. Once you close an account, shred all of the remaining blank checks. Keep the checkbook records for at least seven to ten years, or longer if you paid for insurance policies or other important items from that account.