



“TRUSTWORTHY”

A Free Estate Planner's Email Newsletter by Lawrence J. Robertson, P.C.
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AVOID PROBATE AND SAVE TAXES WITH LIVING TRUSTS

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How Long Should Tax Records be Maintained?

How many times a year does THAT question come up? It comes up at my house every spring. Wonder why?

The IRS gives us a great guide. Share it with your clients! Here's the scoop:

EXECUTIVE SUMMARY:

The length of time a document must be retained depends on the action, the expense, or the event the document records. Generally, records that support an item of income or deductions on a tax return must be retained until the period of limitations for that return runs out.

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FACTS:

PERIOD OF LIMITATIONS DEFINED:

The period of limitations is the period of time in which a tax return can be amended to claim a credit or refund, or that the IRS can assess additional tax.

We've listed below the periods of limitations that apply to

income tax returns. (Unless otherwise stated, the years refer to the period *after* the return was filed. Returns filed *before* the due date are treated as filed on the due date.)

KEEP RETURNS FOR 3 YEARS IF:

If you file a claim for credit or refund* after you file your return; keep records for 3 years from the date you filed your original return or 2 years from the date you *paid* the tax, whichever is later.

KEEP RETURNS FOR 4 YEARS IF:

It is an employment tax record. Keep all such records for at least 4 years after the date that the tax becomes due or is paid, whichever is later.

KEEP RETURNS FOR 6 YEARS IF:

You do not report income that you should report, and it is more than 25% of the gross income shown on your return.

KEEP RECORDS FOR 7 YEARS IF:

You file a claim for a loss from worthless securities or bad debt deduction;

KEEP RECORDS **INDEFINITELY** IF:

You have filed a fraudulent return, or

You do not file a return;

BUT WAIT, THERE'S MORE:

The following questions should be applied to each record as you decide whether to keep a document or throw it away.

PAY SPECIAL ATTENTION TO RECORDS CONNECTED WITH REAL PROPERTY OR OTHER CAPITAL ASSETS:

Records relating to property must be retained until the period of limitations expires for the year in which you dispose of the property in a taxable disposition.

Those records are needed to figure any depreciation, amortization, or depletion deduction and to figure the gain or loss when you sell or otherwise dispose of the property.

Generally, if property is received in a nontaxable exchange, your basis in that property is the same as the bases of the property you gave up, increased by any money you paid.

Records must be retained on the old property, as well as on the new property, until the period of limitations expires for the year in which you dispose of the new property in a taxable disposition.

THE TIME IS UP. NOW WHAT?

Even when records are no longer needed for tax purposes, they should be retained until it is certain they will not be needed for other purposes. For example, an insurance company or creditors may require the records to be held for a period of time beyond what the IRS requires.

As always, I stand ready to assist your clients in explaining all of these alternatives at a FREE consultation (my office or yours).

And, as always, I very much appreciate your kind referrals.

Sincerely,

Larry Robertson

ADDITIONALLY: See my website at www.ljrobertson.com

Please remember my website www.ljrobertson.com to download this newsletter at anytime, from anywhere. Also, clients will likely enjoy reading about living trust benefits and FAQ's as well as download Estate Planning questionnaires and Medicaid Planning questionnaires.

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