Noble Wealth Advisors

OF JANNEY MONTGOMERY SCOTT LLC

Record Retention: Deciding Which Financial Records to Keep

Keep critical documents and records safe and secure but accessible in a time of need

Certain documents and records are too important to retain in an ordinary file drawer. Fortunately, they are also the ones you tend to need least frequently. If they are stolen or destroyed by a catastrophe such as flood or fire, replacing them could be extraordinarily difficult, if not impossible. One of the best places to retain such items is a safety deposit box. These can be rented for a small monthly fee at many banks. The boxes are actually locked drawers within the bank's vault. Various sizes are often available to meet individual needs. A home safe is another option, provided that it is adequately rated to protect contents from fire, water, explosions (gas leaks), and other calamities. Documents deserving extra protection include:

- Property deeds
- Trust documents
- Insurance policies
- Automobile titles
- Stock and bond certificates
- Wills and estate plans
- Personal property inventory
- Marriage and birth certificates
- Military discharge papers
- Passports

Keeping copies of vital records can save time, money, and headaches

There may be times when you need to know certain information contained on documents you've placed in safekeeping but don't need the actual document. Avoid the inconvenience of obtaining the original documents by making copies of them for your file.

Tip: Create one file that includes copies of all documents you've placed in safekeeping (e.g., a "Safety Deposit Box" file). Then, you not only can turn to it for vital facts, but if you are incapacitated, whoever handles your important affairs will be able to locate key documents quickly.

Caution: The specific contents of some documents, such as wills and trusts, may be inappropriate to keep in more highly accessible home files. Instead of a photocopy, you might simply file a page containing those key facts that are less confidential in nature or obliterate very sensitive items on the copy.

Save all essential records, receipts, and documents that your budgeting system requires

There are many reasons to save important records. If you apply for a loan (such as a mortgage , auto loan , or education loan), you will have to provide proof of your income. If you notice that money is disappearing out of your checking account, you'll need your bank statements to back up your claim of unauthorized transactions. If you own financial securities, capital gains taxes are based on the price you paid for them on the date purchased. You'll be required to verify this information. Potential tax audits will be far less intimidating if you have kept records to substantiate your tax return claims. An unsubstantiated claim will cost you not only the unpaid tax but interest charges and possibly, a hefty penalty.

Tip: Most of us realize it's important to keep expense records, but for those with income sources other than employers, a cash receipts log can be invaluable. A small notebook or a few sheets in a separate file folder will do for recording income as it arrives. If you don't recall later whether you received a particular dividend or rent payment, the log provides a quick answer.

Caution: Certain items, such as tips or business-related use of a car, require special tax treatment and records. Therefore, your record-keeping system must track these and retain any related documents.

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Keep records as long as appropriate

Different records need to be saved for different periods of time. Divide your records into categories, such as short-term, medium-term, and long-term. There are no concrete rules about how long records must be saved, so you will often have to use your own judgment. The following guidelines may help:

Short-term (1-3 years)
- Household bills, except those that support tax deductions (items such as heat, water, and electricity are generally short-term unless you deduct them for home office use or a rental)
- Expired insurance policies

Medium-term (6-7 years)
- Tax returns and supporting information
- Income and expense records (including lottery tickets and winnings)
- Bank and credit union statements
- Brokerage house statements
- Canceled checks and check registers (checks for major purchases may be kept longer)
- Paid-off loan documents
- Personal property sales receipts

Long-term (indefinitely)
- Tax dispute records
- Evidence of retirement plan contributions
- Investment records
- Medical history information
- Pension/retirement plan documents
- Social Security information

Other (as noted)
- Home ownership/sale documents: 7 years after sale or indefinitely
- Home improvement records: 7 years after sale

Caution: The IRS typically has three years after a return is filed to audit a return, or two years after you've paid the tax, whichever is later. However, if income was underreported by at least 25 percent, the IRS can look back six years after the return is filed, and there is no time limit for fraudulent tax returns. An audit requires that you provide documentation to substantiate the return being audited.

Tip: Canceled checks do not necessarily prove why a given payment was made, only that the payment was made. Having dated receipts, invoices, sales slips, credit card statements, and bank statements can provide valuable proof if needed, whether for an IRS auditor or an insurance claims adjuster.

Save space: Annually review retained records and discard those no longer needed

Some records and documents can be discarded after all potential usefulness has passed. Depending on circumstances, records can accumulate quickly and require extensive storage space. Discarding records that are no longer necessary saves space and makes finding a record you need easier.

Tip: Expired product warranties and insurance policies are excellent candidates for the trash can.

Tip: For easier future access, retain records for each year in separate files.

Caution: Keep your important records and financial files separate from information you might want to retain for other purposes. If you clip articles, jot notes, and save information you receive on items of potential interest, create a separate set of information files for them. These might contain vacation ideas, recipes, home improvement items, personal letters, or the kids' school papers. Keeping them apart from vital records and financial files makes both easier to find and manage.

Make backup copies of all computerized records

These days, many people keep important records on their personal computer. This can be an easy way to keep your records organized and updated, but it is important to keep a backup copy of these records in a safe place. If your hard drive has a meltdown, you'll need to be able to recreate the important financial information that was lost. Financial management software can be beneficial in tracking your finances, but it will take some time to learn how to use it properly. Don't forget that you must still retain original documents as evidence of past transactions.

NOBLE WEALTH ADVISORS OF JANNEY MONTGOMERY SCOTT LLC

321 WHITNEY AVENUE, NEW HAVEN, CT 06511

203.784.7401 866.580.2853 • NOBLEWEALTHADVISORS.COM

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