Just for the Records…

Seniors Need to Maintain Tax Records *Without* Getting Overwhelmed

By Hillard Rest

Bob Klein was in the process of helping his mother, Annie, move out of the house she'd lived in for 24 years. She was going to a smaller home in a retirement community, and it was difficult getting her to "downsize." And then he saw the desk, piled high with important looking financial statements and tax returns. "I had no idea what to keep and what to throw away. Mom didn't know either."

It is not unusual for older Americans to feel overwhelmed by the amount of seemingly important papers that arrive in the mail. And even for adult children helping a parent or grandparent, it can be confusing to know which documents should be kept and which should be discarded.

One good rule for tax-related papers is to hold them until the chance of audit passes. For individuals, that usually means three years after filing. If the IRS suspects someone has underreported their income by 25 percent or more, those records should be kept for six years.

Always keep 1040 forms and any accompanying tax schedules, along with the documents supporting the returns, such as W-2s, 1099 miscellaneous-income statements, and receipts or canceled checks verifying tax-deductible expenses.

Use common sense to determine which records to keep. If a receipt was used to claim a deduction, keep it. If not, toss it. For seniors especially, keeping all those medical bills is a useless waste of space if they don't accumulate enough to meet the deduction threshold of 7.5 percent of adjusted gross income.

Tax professionals recommend indefinitely keeping records pertaining to a pension plan or home ownership.

Stock transactions are often tax triggers and recordkeeping nightmares.
Investment-account statements, including purchase confirmations from stock brokerages as well as 1099 forms for interest income, dividend income, and sale proceeds should be kept for as long as the stock or mutual fund is held.

If dividends are being reinvested in a mutual fund, taxes are due each year on those dividends. Keeping such information is important so that when the fund is sold, any gains may be taxed less. Without statements, it is easy to lose track of dividend payments and end up paying double taxes on the earnings.

Although the IRS does not require taxpayers to keep their records in any particular way, it does urge them to keep files "in an orderly fashion." "I used to put all my statements and receipts for the year in a shoebox," says Annie Klein, "but the tax man at the senior center suggested I organize everything into four folders: Income, Expenses, Home and Investments. It's made things a lot easier."

The IRS offers record-keeping advice in Publication 552. Also, many organizations provide tax-preparation assistance to seniors at little or no charge and often provide checklists of documents needed. Such checklists are an excellent source of guidance on which documents to save.