Hang On to the Right Papers

Once the tax filing deadline passes, you may be in the mood to throw out some tax records. But be careful not to discard essential receipts that could help you fend off an IRS audit - or toss out important documents that could enable you to collect a future refund by filing an amended tax return. Here are some guidelines on what you need to keep for federal tax purposes and what you can safely get rid of (individual states may have their own regulations):

Completed Tax Returns
Many tax advisers recommend that you hold onto copies of your finished tax returns forever. Why? So you can prove to the IRS that you actually filed. But even if you don't keep the returns indefinitely, you should hang onto them for at least three years after they are due or filed, whichever is later. That means you can now throw away some paperwork from your 2007 tax return, which was filed in April of 2008.

Substantiating Paperwork
Retain all receipts, cancelled checks, and other records that backup the items on your tax return for the same three-year period. The reason you must keep these items has to do with the "statute of limitations." In most cases, the IRS can audit your return for three years. You can also file an amended return of Form 1040X during this time period if you missed a deduction, overlooked a credit or misreported your income.

Exceptions to the Rule
In some cases, the statute of limitations is longer than three years. The IRS has up to six years to conduct an audit if you understate your income by more than 25 percent. And the tax agency can come after you anytime if fraud is involved or you don't file a tax return at all. But there are also cases when taxpayers get more than the usual three years. You have up to seven years to amend a return and take deductions for bad debts or worthless securities, so don't toss out any records that could result in refund claims from those items.

Investment Statements
Save information about stocks, bonds and other investments for as long as you own them. In order to calculate capital gains or losses, you need figures from these statements that show the purchase date, price, commission and dividend reinvestment. If you invest in limited partnerships or "passive" activities, you should also retain related records until you sell.

Individual Retirement Accounts
The IRS requires you to keep copies of Forms 8606, 5498 and 1099-R until all the money is withdrawn from your IRAs. With the introduction of Roth IRAs, it's more important than ever to hold onto all IRA records pertaining to contributions and withdrawals in case you're ever questioned.

Real Estate
Save records that enable you to compute the basis or adjusted basis of your home. You'll need this information to determine depreciation for home office or rental purposes, as well as any taxable gain if you sell. Also, keep records related to your purchase price, refinancing a mortgage, settlement or closing costs, the cost of improvements, casualty loss deductions and insurance reimbursements for casualty losses. Generally, you should retain this information for as long as you own the property and, after you sell it, for the statute of limitations period that applies.

Multiple-Year Write-Offs
Save proof of deductions that are taken over more than one year. When you "carryover" excess write-offs because they can't be deducted right away, you need to hold onto the related records longer.

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