

How Long Should You Keep Tax Paperwork? A Guide for Personal and Business Records

Tax season may come and go, but the question of how long to keep your tax records lingers year-round. Whether you're managing personal finances or running a business, understanding record retention requirements can save you from headaches down the road.

The Basic Rule:

The IRS requires you to keep records for as long as they may be needed for the administration of any provision of the Internal Revenue Code. This essentially means keeping records that support items on your tax return until the statute of limitations expires. The statute of limitations is the period during which you can amend your return to claim a credit or refund, or the IRS can assess additional tax.

Standard Retention Periods:

For most taxpayers who owe additional tax, the statute of limitations is three years after the return is filed. However, this timeline extends in certain situations. If you omit income that exceeds 25% of the gross income shown on your return, the period extends to six years ^[1]. For fraudulent returns or failure to file, there is no statute of limitations, meaning you should keep those records indefinitely.

If you file a claim for credit or refund after filing your original return, keep records for the later of three years after the return is filed or two years after the tax was paid. For claims involving worthless securities or bad debt deductions, the retention period is seven years.

Special Considerations for Business Owners:

Business owners face additional recordkeeping requirements. Employment tax records must be kept for at least four years after the date the tax becomes due or is paid, whichever is later.

Asset Records Require Extra Attention:

Records relating to business or investment assets deserve special attention. You must keep records showing acquisition date, purchase price, improvements, depreciation deductions, and other basis information until the statute of limitations expires for the year in which you dispose of the asset in a taxable disposition. For example, if you sold business equipment in 2022 and meet the standard three-year rule, you would need to keep those records until at least April 18, 2026.

Going Digital:

Paper records can fade, get damaged, or take up valuable space. Many taxpayers now prefer electronic recordkeeping

This information is provided to you by Arrowhead Tax Service. We make every effort to provide honest and accurate tax information. Please use your discretion before making any decisions based on the information provided, every tax situation is different. If you have any questions, please visit our office or call us at 937-543-5770.