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A Tax Resolution & Wealth Management Firm

Records Retention

We are often asked how long tax records should be kept. As with all tax questions, it seems the best answer is “It depends.” Here are some guidelines. (All this information can be scanned and stored digitally.)

Minimum

The minimum is 4 years. While the IRS requires 3 years, California requires 4 years. The most convenient guide on that is to look at the Statute of Limitations.

If your tax returns include results from a business you are a significant owner in, then increase the time to 7 years.

Long-term Residence

If your current residence is not your first residence and you purchased it before May 6, 1997, then this is bad news for record retention. You certainly need the tax return and supporting documents from the year you purchased this house and for the year you sold your prior residence. You may need all the years since then as well.

Capital Items

Be sure you keep documentation on any capital assets purchased until you dispose of the tax return that records the disposition of that asset.

If you are unfortunate to have a capital loss, the good news is you can keep offsetting ordinary income at \$3,000 per year until it is used up. However, you need the tax return and supporting documents for the year the loss was incurred. You also need the tax returns for each year until the loss is fully used (then plus the minimum time from above) and the supporting documents for any capital transactions in those year(s).

Suspended Losses

Suspended losses often come from rental activities and carry forward until the property is fully disposed of. If you have suspended losses from any source, the tax return where the loss first occurred and all tax returns since need to be saved along with supporting documents related to the loss. All this should be retained until the final year that used up the loss is out of the Statute of Limitations – so the minimum time from above.

Net Operating Loss (NOL)

If you have an NOL, you need to save all tax returns and all supporting documents beginning with the year of the loss until the year the loss is finally fully used, then for the minimum time to let the Statute of Limitations expire. If the NOL was carried back, keep those 2 years too.

Richard Ogg is an Investment Advisor Representative and holds California Insurance License #0G48566.

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