Keep or Toss: How Long Should I Hang Onto My Financial Documents?

Every year, it's nice to do a bit of "financial spring cleaning" and declutter your filing cabinet, your desk drawers, and the various hiding places where miscellaneous scraps of paper tend to accumulate and multiply. Read on to find out what you should be saving, and what's OK to shred.

Keep forever
If you're long overdue for some organization in the paperwork department, start here! This category includes all the super-important life stuff that's usually issued to you only once (and therefore is total pain to replace):

- Birth and death certificates
- Social Security cards and ID cards (even expired versions)
- Passports (even expired versions)
- Marriage licenses and divorce decrees
- Copies of wills, trusts, and powers of attorney
- Adoption papers
- Records of paid mortgages
- Safe-deposit box inventory

Your "keep forever" documents should be kept in a secure place. A locking file cabinet in your home is a popular choice, but consider upgrading to a safer alternative, such as a fireproof safe in your home or a safe-deposit box at your credit union or bank. Also consider scanning these documents and having them backed up on the cloud (and password protected, of course) so that you can access them remotely and quickly in an emergency.

Keep for 7 years
This category includes all supporting documents for your income tax return, plus a couple of other odds and ends. This may seem like a long period of time, but it's not an arbitrary number—7 years is how far back the IRS can go to audit a tax return. The breakdown is a little more complex than that: you can be audited for any reason up to 3 years after you file a tax return, and up to 6 years after you file a tax return if you omitted 25% or more of your gross income—which technically makes the auditing window more like 3 to 7 years. We wanted this guide to be thorough, so we're sticking with 7 years as a recommendation!

An audit is an evaluation of your tax return to verify its accuracy and to ensure compliance with tax laws. Many people associate being audited with having committed tax fraud or some other shady financial behavior but, in fact, a number of taxpayers are audited on a random basis each year. If audited, you are required by law to provide the documentation that supports the claims made in your tax return. In some cases, additional information may be required in order to verify a claim you've made—it might just be a matter of providing a canceled check, a receipt or a bank statement. In other instances, the audit may take place on-site (meaning at your residence or workplace) or at an IRS office. Being well-organized is the best way to make the process as quick and painless as possible.

So, what sorts of documents should you hold onto for 7 years?

- Income tax returns
- Any forms that support income or a deduction on your tax return (e.g., receipts, canceled checks, W-2 forms)
- Records of selling a house or stock (documentation for capital gains tax)
- Records of paid-out loans
- Records of sold investments
- Mortgage documents
- Medical records (including bills, prescriptions and health insurance information)

Keep for 1 year

This category mostly consists of monthly statements. A good rule of thumb is to keep your monthly statements for the current year, and then shred them once you've reconciled them with an annual statement. The exception is any statement needed for tax purposes—those get grouped into the "keep for 7 years" category.

- Bank statements
- Pay stubs
- Quarterly investment statements
- Canceled checks

Keep for 45 days

- Credit card statements

Shred credit card statements after 45 days, but hang onto those statements that you may need for business, for taxes, as proof of purchase, or for insurance.

Keep for 30 days or less

- ATM slips
- Utility and phone bills

ATM slips can be tossed once you've checked them against your monthly bank statement. Utility bills and phone bills can be shredded after you've paid them, unless they contain tax-deductible expenses.

Keep as long as active
This bonus category is a catch-all for agreements and contracts that are active for varied amounts of time:

- Warranty information
- Insurance documents
- Vehicle titles and loan documents
- House and mortgage documents
- Pension records/retirement plans

You'll want to hang onto the records in this category for at least as long as you own the asset. For major purchases, stapling the original purchase receipt to the user manual or warranty information will keep everything in the same spot, should you need to make a warranty claim. Documents relating to improvements and upgrades on your home or vehicle should also be saved alongside your title and loan papers.

Sorting through financial documents is a pretty straightforward process once you figure out how long you need to hang onto specific types of documents. Doing a periodic cleanup will save you time and hassle in the long run, and will keep your desk drawers and filing cabinets clutter-free in the meantime!