

Published April 14th, 2010

Tax Papers, Tax Papers Everywhere

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Every year we seem to have piles and piles of more and more paper in this "paperless" society! I'm convinced that for every one we destroy, at least four more crop up in its place. If only my vegetable garden was so prolific! It's so tempting to simply shred everything and not give it a second thought, but we both know it can't be that easy!

This year I thought to myself, how about I just start by getting rid of all my "old" tax returns. Since in most cases, the statute of limitations for audit is three years from the date the Federal return was filed, and four years for California, if I shred those older returns and all the associated records, I'm good, right? Not so fast! Here are some things to pull out and think about before you happily kiss those forms and records good-bye!

1) Many of us are long-term Lamorinda homeowners. We remember the years when we could roll over our basis to new homes as we sold and bought and moved on. No more! Now you are taxed on any profit you make above \$500,000 if married and \$250,000 if you are not married. According to Linda La Honta, CPA, whose practice is in Lafayette, "If you purchased a home prior to May 7, 1997, and you deferred a gain from a prior sale into that home based on the old laws, there will be a form 2119 in the tax return for the year you PURCHASED the new home. If you then sell this residence, you will need the form 2119 to help establish your basis to determine whether or not you have a taxable gain." So take that form off the return and file it with your all your permanent house records.

2) How do YOU track your IRA basis? For most of us it's on Form 8606, attached right to our annual tax return. There might have been years when you contributed to your IRA and it wasn't deductible. This form tells you how much you can recover that has already been taxed! Who wants to pay the government twice on the same income? Keep those forms 8606! And if you remember the years when the amount you deducted for IRA contributions was different on your California vs. Federal returns, that's all on you to keep track of. However, according to Mary Kay Foss, CPA and Director at Greenstein, Rogoff, Olsen and Company, LLP in Danville, "The Franchise Tax Board puts out publication 1005 every year that gives a schedule you can use, so you do track it on your own, but they have a schedule to help."

3) You should also keep confirmations showing purchase prices of any stocks, bonds, mutual funds and other investments that you still own. Many of us rely on our brokers and advisors for this information, too. Only when you are comfortable that your monthly and annual investment statements do reflect your basis, and that it is completely accurate, should you let go of these records.

4) We also think it's a good idea to keep your W-2s or maybe even paystubs to be sure that your Social Security record is completely accurate. Also, as Linda points out, "If you have changed jobs, keeping the first and last paystub from your former employers could be of use in reporting accurate employment dates on either a resume or a mortgage application." If you lose your job, this information might help you qualify for unemployment benefits as well.

5) If you are self-employed, some big ticket items such as computers, furniture for an in-home office or even a vehicle might be at least partially deductible. If you keep those receipts with your return you should remove them before destroying the return and accompanying documents. In the event of a loss, you'll need proof of purchase for insurance purposes.

If this still seems like a lot of paper, think about investing in a scanner and keeping records that way. However, you need to be sure that you have a secure system and that you have back up! An electronic vault or back-up disks securely stored can be a great solution. As an extra benefit investing the time and money in this approach could absolutely save you in the tragic event of water or fire damage or even misplaced files during a move. Last but certainly not least: if you are concerned about keeping any of these records we discussed for any other reason, check with your team of advisors first!

Happy spring cleaning!

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