Abstract: The period between filing last year's tax return and this year's return is the perfect time to organize your tax records. Granted, it may not be something most taxpayers relish doing. But tackling this now can save headaches later. This article explains the IRS guidelines for tax-record retention, as well as some important exceptions to consider.

Now's the time to organize your tax records

The period between filing last year's tax return and this year's return is the perfect time to organize your tax records. Granted, it may not be something you relish doing, but tackling this now can save you a multitude of headaches later.

Tax law rules

Generally, you should keep tax-related records as long as the IRS has the ability to audit your return or assess additional taxes — in other words, until the statute of limitations expires. That means three years after you file your return or, if later, three years after the tax return's original due date.

In some cases, the statute of limitations extends beyond three years. If you understate your adjusted gross income by more than 25%, for example, the period jumps to six years. And there's no statute of limitations if you fail to file a tax return or file a fraudulent one.

Longer periods

Although the IRS statute of limitations is a good rule of thumb, there are exceptions to consider. For example, it's wise to keep your tax returns themselves indefinitely because you never know when you'll need a copy.

For one thing, the IRS often destroys original returns after four or five years. So if the IRS comes back 10 years later and claims you never filed a return for a particular year, it can assess tax for that year even though the limitations period for properly filed returns has long since expired. As you can see, it would be difficult to defend yourself without a copy of your tax return.

W-2 forms also are important to keep at least until you start receiving Social Security benefits. You may need them if there's a question about your work record or earnings in a particular year.

Property and investments

If you have property records, it's ideal to keep closing documents and records related to initial purchases and capital improvements until at least three years (preferably six years in case you understated your income by more than 25%) after you file your return for the year in which you sell the property.

When it comes to sales of stocks or other securities, retain purchase statements and trade confirmations until at least three years (preferably six years) after you file your return for the year in which you sell these stocks or other securities.

Keep volume of records in check

Many years' worth of tax and financial records can accumulate before you know it. The better your documentation is organized, with records culled after the appropriate time to keep the volume in check, the easier time you'll have if you need to access previous years' records or deal with any IRS surprises. Contact your tax advisor for additional advice on what you should keep and what you can toss.