

Financially Speaking

With Trisha Arndt

Doing spring cleaning for your financial records

A couple of weeks ago I took advantage of the nearly summer-like weather to walk to the Moose Creek Deli to pick up lunch and saw my first robin.

Catching a glimpse of that first herald of spring is the “get out of jail free” card that says I have made it through yet another winter in Wisconsin. It means longer, warmer days are ahead and green will once again become the primary color of our landscape.

It also means that it is time to tackle the annual spring cleaning.

Many of us view spring as a good time to wash windows, air out drapes and have our carpets cleaned, but have you ever considered spring cleaning your financial files? You know, those bulging boxes of disorganized papers (or perhaps more orderly files) that have grown from one small file cabinet to now overwhelm both your attic and half of your basement?

Almost every new client I work with asks at some point about what financial records they can keep and what they can throw.

A few answers are easy.

In today’s environment of heightened disclosure, you receive a lot of things in the mail that relate to general financial institution policy (such as privacy statements) or are broad updates that relate to a product or investment on a universal level (stock annual reports).

As a general rule, you shouldn’t need to keep things that do not reference or relate specifically to you or your accounts.

You can also eliminate duplicate information. For example, many investment accounts will send you a confirmation when a transaction occurs. They may then send you a monthly or quarterly statement listing all of the transactions for that period, followed by an annual statement detailing all of the transactions for the year.

In general, you only need one record of a transaction. Keep the annual statement and eliminate the rest.

It gets more complicated when you start thumbing through your income tax-related information, however.

The need to keep many records is dependent upon your personal situation so can’t be easily addressed here. For example, many of us have no need to keep old utility or medical bills but for those who are self employed, claim a home office deduction or itemize their medical expenses those records should be kept for a certain period of time. Similarly bank statements or credit card bills that reflect tax related items or document purchases of, or improvements to, financial assets should be kept. Please consult your personal tax or financial advisor to clarify what you may need to keep.

There are tons of articles available relating to how long you need to keep your tax records, typically ranging from three to seven years. The problem with this advice, as your tax preparer would probably tell you, is that it is too generalized.

While certain things like property tax bills, pay stubs or W-2’s may be OK to discard after an appropriate number of years (personally I’m in the seven-year camp), there are some things that you’ll literally need to keep forever, or at least until three to seven years have passed since you owned the asset.

Generally, those things relate to cost basis. It's the biggest single tax problem that I run into for clients every year.

When you sell something you own, be it a stock, mutual fund or a home, the government is going to need to know how much it has gained or lost in value. That means that you need to have some way of documenting what you paid for it. It doesn't matter if you bought it three years ago or 30 years ago, it is your responsibility to know your cost basis. Many financial institutions keep track of cost basis in today's electronic age, but you can't assume that someone is doing it for you. Many investment companies didn't start tracking basis until the late 1990s, and if you have moved money around, the basis often doesn't transfer with the holding.

Therefore, you need to keep documentation of every purchase or sale, including reinvestments or improvements, for any investment asset that you own – including your home, investment accounts and any collectibles.

For some of us, that's a lot of paper to hold. Fortunately, there might be ways to help reduce the amount of paper that you receive on a continual basis.

Many institutions today will give you the option of changing your account to electronic delivery. That means you can elect to have all of those pesky notices, reports and even statements sent to you by e-mail instead of paper. You generally just need to contact their service department to request it.

You should also ask if the institution has a "householding" policy, which allows similar accounts within the same household to elect to receive only one privacy statement, annual report, etc.

While it's not advisable to do away with your financial records completely, at least you can reduce the volume. And just think how good you will feel after spring cleaning if you can actually find your file cabinet again.

Feel free to ask a question or mention a topic that you would like to see in a future issue if you see me around town, or e-mail me at trisha@wealthstrategies.biz. Ideally I would love for every column to be an answer to a reader's request.

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