**Questions & Answers—Become A Filing Expert!**

**REMOVED/REPLACE**

Is it safe to throw away old insurance policies?*

Once you receive a new insurance policy, there is often no practical reason to keep the old one. Note the following important exceptions and how to prepare for them:

1. If a claim is pending, keep the insurance policy and claim with your Active files until resolved. Afterwards, keep the expired policy and related documents in a Tax folder, to be kept for ten years (see General questions for an explanation of how to file other documents related to a claim).

2. If you anticipate a possible claim based on an event that occurred during the period of an old policy, file the agreement into a Monthly folder to keep for two additional years, or into a Tax folder to keep for ten years. Such claims generally do not apply to policies for health, disability, life, rentals, or automobiles having no unresolved accidents. For homeowner’s policies, consider damage that may go undiscovered for some time such as rainwater leaks, or lawsuits that may be brought against you for damages occurring in the past. (The time limit for lawsuits or claims is typically 2-3 years for most states but may be extended indefinitely to allow reasonable time for discovering unnoticed damage.)

3. For business liability or malpractice insurance, consider keeping past policies indefinitely to cover occurrences throughout the life-span of your business. Use labels provided with the FreedomFiler® Business Kit.

Keep in mind that your insurance provider typically keeps records of old policies for at least five years by state regulation, and is obligated to provide a copy of your coverage history should you ever apply for a discount on a new policy.

What should I do when I receive policy addenda or updated declarations?*

File any addenda along with your current policy as they collectively form a complete agreement. If a new policy is finally printed, it will replace the prior policy and all addenda. Another type of document periodically issued is a summary of policy declarations, which is not the actual policy but a statement of your current elected coverages. Remove only the prior declarations and replace with the new. When replacing any declarations, addenda or expired policies, you may re-file these documents as explained in the answer to the previous question.

If I refinance my home, can I throw away the previous loan agreement?**

After recording all balances, keep the prior loan agreement and closing papers with your tax records. There may be prepayment penalties or unrealized credits you can deduct from your taxes.

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**RESOURCES**

Why are the purple Resource labels optional?

You can save as many Resource files as you want guilt-free by using labels provided with the FreedomFiler® Business Kit. You may also rotate specific folders as needed.

activo

Should I file active papers by category or by date?*

The advantage of filing active papers by date is that you can spot problems in your bills or payments to avoid penalties or unrealized credits you can deduct from your taxes.

Should I use manila or colored interior folders?*

Interior folders are not necessary but may be preferable for subdividing files or improving handling convenience. Papers can often be filed and retrieved faster by using a series of hanger folders instead of interior folders. For example, to organize car records, you may label folders as follows: Auto Improvements, Auto Oil/Lube, Auto Service & Repair, and Auto Title/Papers. See examples on label sheets 4A and 5A.

For larger, 1/3 cut labels to fit interior folders?

Yes. The FreedomFiler® Expander Kit has plenty of 1/3 and 1/5 cut labels in every color.

Why use stickers instead of paper inserts?

An individual sticker can be peeled from a sheet faster than tearing out a paper insert. Preprinted stickers remain alphabetized on a single 8 X 11 sheet and do not become scattered or lost. For convenient access, extra sheets can be kept inside a folder in your filing system. Unlike paper inserts, blank sticker sheets can be fed through a printer many times over, printing only a few labels at a time without being destroyed. Stickers also offer the flexibility of working with any tab color.

What is the purpose of EVEN & ODD YEAR labels?*

Having two identical sets of folders allows you to accumulate documents two times a year for the current year while keeping a separate backup of all documents from last year. Two years allows you plenty of time to pay your taxes and place any supporting documents in the Tax Archive before folders are reused. Folders can be rotated each year without having to be renamed, and there is no need to ever create new folders.

EVEN/ODD YEAR seems a little odd. I’d prefer to see the actual year. Can I do that?

Yes. You may use the blank Section Headers provided on label sheet 3 to write or print the actual year. Place a single header to the far right of the first folder for any given year. Keep in mind that because current year files are kept far apart from last year’s files, it is highly unlikely that you will ever file a document into the wrong year, even if you do not mark actual years onto folders.

What if I prefer not to separate my Permanent, Remove/Replace, and Resource files?

You may intermix any number of folders with different tab colors in a single alphabetic line in your filing drawer, according to preference.

What if I receive statements and bills online?

If you make payments online, you may still want to print a paper backup of your transactions. FreedomFiler’s Monthly folder labels provide a reliable, maintenance-free backup system.  

*See final page for limitations of liability.
MONTHLY

Why should I file documents by month?
This will greatly reduce the amount of energy it takes to do your routine filing, and you will be surprised how quickly you can find any single document, often faster than if you had separate folders for each account. But remember, what matters most is how fast you can file. Over 90% of what you file may never need to be looked at again.

What if I prefer not to file bills and statements by month?
Set up a separate folder using labels provided on label sheet 1A, e.g. Utility Bills, and place your bills there. Beginning every other year, discard the entire contents to begin anew.*

What if I don’t have room for 24 months folders?
If you have very few pages, you may file paid bills and monthly statements into dedicated folders as described in the answer to the previous question. Alternatively, if separating your files into two or more file drawers is not an option, consider creating a rotating cycle consisting of fewer folders (see label sheet 1B). For example, if your tax needs are very simple (e.g. W2 only), you may only need a 6-month or 1-year cycle to keep petty transactions. Additionally, you may cluster 2-3 consecutive months tab onto a single folder. If none of the above solutions suit you, instead, receipts and bills may be filed into a compact expanding file, either by month or by vendor name A-Z.

Is it safe to throw away old bills and account statements in Monthly folders after two years?* Because these items are needed for your taxes and since you will have already filed your return for that year, it is generally safe to discard these pages automatically.* Two years also allows more than adequate time to resolve any vendor disputes; however, if you would like to keep them longer than two years, use additional labels to create a new set of folders for each added year. The actual legal time limit for lawsuits will vary somewhat from state to state but usually ranges between 2-3 years for nearly all types of claims. Keep in mind that most banks and service providers preserve your statements on file for seven years or more (also according to state laws). If you are concerned about keeping documentation beyond two years for the purpose of applying for future loans, you may use a Permanent folder titled Loan Payment History for keeping a record of regular payments to a creditor (see label sheet 4A). Refer to your Label Index for a full discussion of issues and available options.

TAX

Why are there two shades of blue Tax labels?
Folders with light blue labels are for accumulating documents before paying taxes while folders with dark blue labels are for use after paying taxes. After taxes, re-file pages from the light blue folders into a single folder in the dark-blue Tax Archive. After taxes, how can I fit all my tax documents for the entire year into one Tax Archive folder? If necessary, use a large box-bottom file for each year in your Tax Archive. You may staple receipts by category before placing them into the archive. The Tax Archive eliminates the need to set up new tax folders each year while providing more than adequate retrieval of past tax records.

What documents should I set aside for taxes? Choose labels for your light-blue Tax section according to your personal tax needs. For example, you may only need one Tax folder if you file your tax returns early or on time year by year (i.e. doing a W2 form). On the other hand, if you are self-employed or if you itemize deductions, you may end up using several tax folders. As a general rule of thumb, whichever documents you use to come up with your tax declarations will be sufficient for the IRS in case of an audit—nothing more is needed. If you are not sure what papers to set aside for taxes, take a look at your most recent tax return and see what supporting files were required. Many example labels are provided for just about any tax category. You may wish to consult a tax advisor to find out which deductions are available to you.

Should I file bank statements in the tax section or into a monthly folder?* Personal banking statements, unless required for tax purposes, may be filed into a monthly folder. The light-blue Tax section is for accumulating all documents that you will need to refer to when filling out your tax return OR any documents that you need as proof to the IRS of your tax deductions and income. These may include end-of-year statements of your income, business account statements, or any personal account statements necessary to justify your tax return. As an added safeguard, you may deliberately file all bank statements with your tax documents, thus retaining them for ten years. See label sheet 2A for necessary labels.

What if I don’t know in advance what documents I will need for taxes? Even if you do not set up any tax folders, you will still have all of your receipts, paid bills, and statements filed by month. You can simply wait until tax time to see what documents you need, and then set up your light-blue Tax section accordingly. This will speed up your tax preparation for the following years.

Which Tax labels do I need for my home business? For IRS schedule C/E businesses, start by looking at the actual pages related to your business. For example, you may deduct bills for several services such as utilities, telephone, and internet. Use separate Tax labels for each. For all remaining business receipts, choose labels only for your most frequently used categories, and file all other receipts in Other Business Expenses. This will avoid unnecessary folders.

Note: If you use software to categorize expenses, you may save time by filing all business expenses by month or by vendor name A-Z (use blank labels provided or obtain the FreedomFiler Business Kit).

Where do I file a receipt for an item with a warranty such as a copier that is also tax deductible for my home business? Should I file it in the Permanent or Tax section? 1. If you rely on the papers in your Tax folders for computing your tax deductions, it is best to put the receipt into a Tax folder so you will remember to deduct the purchase. After calculating taxes, you may re-file the receipt into a Permanent folder for re-sale or warranty purposes. At the alternative, at the time of purchase, you may file the receipt directly into a Permanent folder while placing a duplicate of the receipt into a Tax folder—even just jotting a note with the item name and sale price will be enough for computing your taxes later on.

2. If you rely on computer software or an expense book for calculating your tax deductions, file the receipt with the warranty into a Permanent folder under Warranties (after entering the transaction into your software program or expense book log).

Is it safe to throw away tax documents after ten years?* The IRS has three years to challenge your tax declarations, but it has up to six years if your income is understated by more than 25%. Therefore, it is generally considered more than adequate to keep tax records for ten years.*

Notes:
• Form 8606 for non-deductible contributions made to your retirement fund which can be withdrawn later without paying additional tax (if you frequently make non-deductible contributions, keep a separate account to simplify record keeping)
• Form 8850 for property improvements made in support of adopted children
• Form 3468 for energy saving improvements, electric vehicles, and other investment credits
• Form 2119 only if you have postponed paying tax on profits from the sale of a previous home or homes before May 7 of 1997
• Form 6251 for depreciation of property (the IRS recommends that you use depreciation tables as your permanent record instead)
• Any other forms pertaining to cost-basis of an asset (i.e. purchase price and improvement costs)

Note: If you intentionally avoid filing a return or false returns, there is no time limit for the government to charge you with fraud. If you have any special circumstances consult a tax advisor. If you are not sure, keep records of your actual tax forms (1040, W2 etc.) beyond ten years using the extra labels provided on sheet 3. After ten years have passed, you may discard cancelled checks, receipts, statements and the like.

PERMANENT

Are Permanent records really kept forever? Not always. Permanent records are permanent only for the person or asset concerned, but may not be relevant after the person or asset has expired. In some cases, permanent records for a person may be kept with family heirs forever. Permanent records for an asset are filed with taxes when sold or passed to a new owner. When the asset eventually expires, in practice, the file should be removed to check warranty information, replacement costs, or to make an insurance claim in the case of damage or theft. For this reason, there is no need to purge Permanent files.

How do I prevent Permanent files from becoming overcrowded? Because historical family and property records may accumulate, it is best to set up several permanent folders ahead of time. For example, instead of using a single folder for warranties and manuals, set up several folders using specific categories such as Appliance, Furniture, Kitchen, etc. See similar examples on label sheet 4A for auto and home records.

Why are warranties filed in a Permanent folder given that they expire after ten years? Because warranties can affect resale value and because some warranties last for a lifetime, it is easiest to keep them in the permanent section. Although many warranties do expire, they are still useful for knowing the expected lifetime of a product and to confirm the warranty conditions already ended when an item eventually breaks down. Of course, if an outdated warranty is discovered, it may be discarded at that time.

Do I have to save each stock purchase receipt in a Permanent file? Only if you know you will need it for an extended period of time. It is best to file your receipt directly into a Permanent folder while placing a duplicate of the receipt into a Tax folder—just jotting a note with the item name and sale price will be enough for calculating your taxes later on.

Where do I file a receipt for an item with a warranty in a Permanent file? In a separate folder using labels provided on label sheet 4A. Refer to your Label Index for a full discussion of issues and available options.

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