

Year End To-Do List

By Ramona Creel

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Tax time – that special time of year when you scramble around collecting up all of your financial paperwork for the previous year. It's also the perfect opportunity to “clean house,” get your personal affairs in order, and start the new year fresh.

GETTING READY FOR THE IRS

Start by going through your files and collecting up all of your tax records for the previous year. Don't forget:

- business receipts,
- medical bills and child care expenses (if you qualify for these deductions),
- charitable contributions,
- year-end statements from your employer and financial institutions, and
- any correspondence from the IRS.

How were all of those records organized? If you don't already have one, set up a section in your files labeled “taxes.” Create a folder for each category above that applies to you. If you take multiple medical or child care deductions, you might need a file for each family member. And you are welcome to break your business expenses out into smaller categories -- such as “supplies” or “travel” or “professional services.”

If you use a computerized accounting program, take a few minutes to get it updated for the year. One of the best habits you can get into – especially if you run a small business or need help with household budgeting – is to set up a regular schedule for recording your expenses. Create a folder or basket for accumulating receipts, and sit down once a each week to log everything into your computer. Tax time is much easier when you can simply hand your accountant a disk, rather than a shoebox (or garbage bag!) full of paper.

ARCHIVING

Once your taxes are filed, you will need to hold onto the supporting documents for these records for 7-10 years, in case of an IRS audit. If you aren't taking business deductions, the general rule of thumb for keeping personal financial records is 3 years. And, of course, you want to keep some

items FOREVER – such as your tax returns, vital records, proof of final payment on a mortgage or student loan, etc. However, each person’s situation is different, so talk to your CPA or attorney before you throw something out that you might need again.

CLEANING OUT YOUR FILES

However, there are many documents that you can easily get rid of at the end of each year. Does your investment broker provide you with an annual “summary statement” that lists your transactions for the year? You need to keep those year-end summaries -- plus any trade confirmations (buy/sell) -- for as long as you have the account. But you can pitch any other monthly or quarterly statements. And let’s talk about medical paperwork. You certainly want to keep your medical records (lab results, vaccinations, information about illnesses or injuries). But unless you are taking a medical tax deduction or are in a dispute over the payment of a bill, do you really need every receipt that shows you paid your \$10 copay? Also ask yourself why you need to keep cable, phone, or utility bills for more than a year or two. If you need a long-running record of your payments, you can get it from the utility company. Unless you are in a dispute, buying a house, or trying to obtain citizenship, these documents don’t really serve any purpose once the bill is paid. Just be sure to shred anything that contains sensitive personal information (account numbers, social security numbers, etc.)

While you are at it, take a quick look around at your other active files and clean out any other outdated documents. Remember that 80% of what you file away will never be looked at again until you toss it out. Do you really need your kid’s class schedule from 3 years ago, or 15 outdated auto insurance policies? Ask yourself a couple of quick questions about each piece of paper:

- Is it current? Is it relevant to my life right now?
- When was the last time I looked at it? Why would I need it again in the future?
- Can I easily get this information again if I need it?
- What’s the worst thing that would happen if I got rid of it?

PROTECTING YOUR INTERESTS

While you are focusing on getting your affairs in order, spend a few moments thinking about the future. Are you adequately protected in case of a disaster or personal emergency? If you don’t have a household inventory, create one. Take photos of everything you own, describe when you bought it and what it is worth, and gather up any receipts and appraisals. You will want to update this inventory each year to include any new purchases -- and upgraded the replacement value of your homeowner’s or P&C insurance to reflect any increases.

This is also the time to update your wills and powers of attorney to take into account any changes in the tax and estate laws -- or a life change like a move, marriage, divorce, birth of a child, etc. Also take a minute to create or update a complete list of account numbers (bank, credit card, investment, insurance policy, etc.) and important contacts (attorney, investment broker, doctors, CPA, insurance agent, executor of will, etc.) And finally, make sure that copies of your most important documents (will, power of attorney, list of account numbers, list of important contacts, insurance policies, birth certificates, household inventory, etc.) are protected in a safe or safe deposit box.

Once you get in the habit of “cleaning house” each year, you will find that tax time is less of a burden than it used to be. You will also discover a greater sense of peace and control once your “house” is in order – you won’t have to worry about “what if,” because you’ve already planned ahead.

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