

Traditionally, important tax and financial records have been stored as hard copies in desk drawers, filing cabinets, and safe deposit boxes. These days, however, it's become increasingly popular and easy to digitize documents and store them electronically. Is this the right move for you?

The case for going digital.

One of the biggest advantages of digital documents is a drastic reduction in the amount of paper that you must sort, organize and store. Also, digital documents are generally more protected from damage than paper files — assuming they're stored properly. After all, paper records are subject to damage or loss by fire, theft, mold, and sprinklers. These risks can be easily mitigated with good electronic storage practices.

Digitized records improve productivity. For example, documents can be efficiently searched for (and searched through) using keywords. But paper files that are misplaced or misfiled may require hours of rifling through file cabinets and paper folders.

Electronic documents can also be digitally date-stamped, which helps ensure that you're accessing the most recent versions. You can track edits to electronic files, monitor who's been viewing them, and restrict access to sensitive documents, too.

Electronic Storage Options Risks

To digitize paper documents, you need only a scanner. Scanners are widely available for purchase or rent. After digitization, you can reduce your paper files by shredding many of them, though you may need to retain paper versions of some legal documents. (Consult an attorney about which ones.)

When it comes to storage, you essentially have two options:

1. A self-hosted system. Here, you buy a dedicated hard drive (or several high-quality thumb drives) on which to store your digital records. It's best not to keep these files on your home computer because, if it crashes or gets hacked, your sensitive data will be exposed. Hackers can't get to self-hosted files because they're not on the internet, and you can limit your drive's exposure to natural disasters or accidental damage by keeping it in a fire-proof safe.

2. The cloud. You've likely heard of, and may even use, internet-based storage for photos or other items. You can do this for tax and financial records as well, but you've got to be careful. Choose a reputable and stable provider that encrypts everything. The upside is you'll have instant access to your files anywhere in the world — as long as you have a secure internet connection. The downside: You'll lose access during internet outages and no cloud system is 100% guaranteed secure.

Document security is peace of mind.

For many people, the right approach to secure document storage might be using both paper and electronic to some extent. Retain paper files of certain documents for a recommended period and digitize everything else.

We can help you find the best way to keep your tax and financial records organized and safe.