

**Abstract:** Traditionally, important tax and financial records have been stored as hardcopies in desk drawers, filing cabinets and safe deposit boxes. Nowadays, it's become increasingly popular and easy to digitize documents and store them electronically. This article explores the advantages and risks of this approach.

## **Should you digitize your tax and financial records?**

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

### **Pluses of electronic storage**

Perhaps the biggest advantage 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.

In addition, electronic documents can 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.

### **Self-host or the cloud**

To digitize paper documents, you need only a scanner, which can be rented if you don't have one and don't wish to purchase one. You can shred many paper files after digitization, 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) to store your digital records. It's best not to keep these files on your home computer because, if it crashes or gets hacked or stolen, your sensitive data may be lost permanently or 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, accidental damage and theft risk 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.

### **Organized and safe**

For many people, the right approach might be “both.” Retain paper files of certain documents for a recommended period and digitize everything else. Our firm can help you find the best way to keep your tax and financial records organized and safe.