

COMPLEMENTARY EXPENSES

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When you buy certain items or incur certain expenses, other expenses become necessary to support or go with the initial expenses. Essentially, groups of expenses are “bundled” together. If you incur one, you will likely have to incur another. This is the concept known as complementary expenses.

Most of the time when we are looking at making a purchase of some large item, we simply ask if we can afford the price of it. Based on our income the answer might be yes, we can afford the purchase. However, rarely do we look at the complementary expenses that accompany our new purchase. These expenses can often be significant in relation to the cost of the item and more importantly, can impact our overall financial program. By examining these bundled or complementary expenses, we can get a more accurate idea of the complete cost and the financial consequences of our purchase. Hopefully, by looking at these costs & consequences, we can then make better decisions about our finances.

Most people in our society want to own their own homes. Frequently, I am asked whether they will save money on their taxes by buying a home rather than renting. Asking about tax savings is not the right question that they should be asking. On a strictly financial level, the correct question is “will I have more or less discretionary funds available by renting or owning a home?” The analysis is as follows: On one side you look at your current rent payments. Compare your rent to the following expenses: Take the mortgage payments, taxes, & insurance and deduct the income tax savings. Next add in the expenses you will likely incur to get your new house ready for your use. These include any remodeling costs, all the new kitchen gadgets, shelf liners, & other accessories. Also add in the increase in any utility bills, lawn & garden maintenance costs, additional cleaning costs, & any other costs that might increase or be incurred as a result of living in the home. Once all these costs of owning a home are factored in, including the substantial complementary costs, renting is usually far less expensive. I’m not suggesting that we should all go out & become renters. My point is that most people ignore the true expenses that come with home ownership when they look at purchasing a home. By failing to look at all the expenses, they may make a decision that stresses their finances.

Similarly, when people are deciding whether to move into a large expensive dream home in a premium neighborhood, they usually just look at the increase in mortgage payments less the additional income tax savings. Again, the dream home may be very affordable based on their income and the bank may be very willing to loan them the money. But what effect is the increased mortgage costs as well as the complementary expenses likely to have on their financial accumulation program? Dream homes in nice neighborhoods can have a tremendous amount of complementary expenses. Some of these expenses might include things such as: lawn and garden services for the increased lot size, house cleaners for the increased home size, more expensive cars, country club dues, private school tuition for children, a larger boat & other items that you would need to “fit in” to the lifestyle of the neighborhood. Again, I’m not saying that you shouldn’t spend money on these items or make the move up to your dream home. The issue is to be

aware of these increased expenses before you make the move and factor them in to your decision. Because these bundled complementary expenses can be significant, you need to make sure that you can achieve your financial goals in your new home.

There are many other examples of complementary expenses. Someone who is looking at private school tuition for a child also needs to factor costs of commuting as well as clothing and accessory costs for children. A job in a high rise office building in downtown will mean more commuting costs, possibly more expensive dress clothes, and higher costs for meals at work. Buying a large boat comes with insurance, repair & maintenance costs, winter storage, moorage fees & other costs.

When deciding to make any large purchases take the time to look at any bundled complementary expenses that you might incur with the new purchase. If you are less able to save money or pay off debts and you can still work your plan with the purchase, go for it if the purchase is a high priority and you are willing to live with the consequences. However, if you have little savings, high debt loads, & no financial cushion, the financial consequences of the purchase can include not having enough money to pay your taxes or other personal expenses. By estimating the true cost of the purchase including complementary or “bundled” expenses, you are in a better position to determine whether you are willing and able to live with the changes in your finances.