2024 · WHAT ISSUES SHOULD I CONSIDER WHEN FUNDING AN UNEXPECTED EXPENSE?

TIER ONE TAX SERVICES

THRESHOLD ISSUES

THRESHOLD ISSUES	YES	NO
Is the expense urgent and necessary?	☐	☐
Is the expense of a recurring (seasonal, annual, etc.) nature?	☐	☐
Do you need to confirm how much time you have to fund the expense?	☐	☐
Do you need to explore whether key factors are flexible? If so, consider the following: ■ Negotiate terms when possible. ■ Look to adjust your timeline for making payment(s), if possible, to accommodate your circumstances. ■ If there are more affordable alternatives, weigh the costs and benefits.	☐	☐
Is the expense attributable to a third party? If so, consider whether you have grounds for recovery or legal action.	☐	☐

FUNDING SOURCES

FUNDING SOURCES	YES	NO
Is the funding need short-term (e.g., you expect that a future liquidity event will eventually cover the expense)? If so, consider the following: ■ Explore temporary financing options that will bridge the time gap. ■ If you have an IRA, you could take advantage of the 60-day rollover rule to cover the expense and repay the full amount to your account (subject to the one rollover per 12 months rule).	☐	☐
Could the expense be covered by insurance (in whole or in part)? If so, contact your insurance company to determine the steps and documentation needed to pursue your claim.	☐	☐
Do you have liquid assets (cash or cash equivalents) to fund the expense? If so, consider the following: ■ If you are tapping your emergency fund, create a plan to replace withdrawn cash. ■ If you are using cash earmarked for other goals, adjust your savings strategy to divert dollars back to those goals. (continue on next column)	☐	☐

FUNDING SOURCES (CONTINUED)

FUNDING SOURCES (CONTINUED)	YES	NO
Do you have a HELOC?	☐	☐
Do you have a taxable investment account? If so, consider the following: ■ If you need to sell investments to raise cash, consider the tax impact and harvest gains and losses strategically. ■ If you are able to borrow against your investments, this could help smooth any tax burden across tax years and it would avoid underwriting.	☐	☐
Do you have a Roth IRA? If so, consider the following: ■ Contributions can be withdrawn at any time, tax and penalty-free. ■ Withdrawn earnings may be subject to income tax and possibly a penalty. See the flowchart "Will A Distribution From My Roth IRA Be Tax And Penalty-Free?" ■ Be mindful of the impact on your long-term financial plan.	☐	☐
Do you have an inherited IRA? If so, withdrawals will be subject to income tax (unless the account is a Roth), but there is no penalty.	☐	☐
Do you have a retirement account with your employer, and does the plan allow loans, have emergency withdrawal provisions, or have a retirement-linked emergency savings account?	☐	☐
Do you have a traditional retirement account? If so, consider the following: ■ Withdrawals from your IRA, 401(k), 403(b), etc. (if permitted) will be subject to income tax and may incur a 10% penalty if you are under age 59.5, except in limited circumstances. ■ Review whether the expense qualifies for a penalty exception (e.g., first-time homebuyer, qualified education expenses, unreimbursed medical expenses, qualified birth or adoption expenses, etc.).	☐	☐
Do you need to explore borrowing to cover the expense instead of spending your own funds? If so, consider the following: ■ Weigh the tradeoffs and compare the interest cost of borrowing to the opportunity cost of spending rather than investing your assets. ■ Explore any financing options through the vendor/service provider, if applicable. (continue on next page)	☐	☐

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FUNDING SOURCES (CONTINUED)	YES	NO
■ For short-term needs, consider using a credit card with a 0% intro APR (or other favorable offer to avoid the high interest rates typically charged by credit card companies) to pay for the full expense, allowing you time to pay off the balance over the favorable interest rate period.		
Do you have a family member who is willing to provide assistance? If so, consider an intrafamilial loan. This can be structured to permit a low rate (tied to the AFR) and payments can be forgiven gift tax–free up to the annual exclusion amount.	☐	☐

CASH FLOW ISSUES	YES	NO
Do you need to assess how this expense will impact your regular budget this year? If so, consider the following: ■ Reassess discretionary spending and eliminate unnecessary costs in order to free up funds and/or redirect savings. ■ Adjust the timing/amount of other discretionary expenses.	☐	☐
Are there future carrying costs associated with this expense?	☐	☐
If you incurred debt to cover the expense up front, do you need a debt reduction/consolidation plan? If so, treat repayments as a fixed expense in your future budget.	☐	☐
After covering this expense, do you expect to have excess cash flow in the future? If so, consider replenishing your emergency fund (if needed) and saving toward new or other goals. See the "What Accounts Should I Consider If I Want To Save More?" checklist.	☐	☐

TAX ISSUES	YES	NO
Is the expense an unexpected tax bill? If so, adjust your tax planning to avoid large payments and penalties in April, spreading withholdings and/or estimated payments throughout the year. (continue on next column)	☐	☐

TAX ISSUES (CONTINUED)	YES	NO
Will you withdraw funds from a tax-preferred account (e.g., 529 plan or HSA)? If so, consider the tax impact and any potential penalties, keep proper records, and report withdrawals, if necessary.	☐	☐
Will you need to raise cash from your taxable investment account(s)? If so, consider the capital gains consequences. Choose securities and lots that tie with your gain and loss harvesting goals, as well as your investment goals.	☐	☐
Will you borrow to fund the expense? If so, consider whether any interest payments will be tax-deductible.	☐	☐
Do you need to determine whether the expense is tax-deductible (in whole or in part)?	☐	☐
Is this a home improvement expense? If so, keep proper records to document any increase in your cost basis.	☐	☐
Will your future tax bills (real estate, auto, etc.) increase as a result of this expense?	☐	☐
If you can control the timing of the expense, does it make sense to delay into the next tax year, or to spread across multiple tax years?	☐	☐
Does your method of funding the expense push your income above certain limits that expose you to various additional taxes and surcharges (e.g., NIIT exposure, IRMAA surcharges)?	☐	☐

MISCELLANEOUS ISSUES	YES	NO
After making this expenditure, will you need to update any existing or add any new insurance coverage?	☐	☐
Will you need to consider your debt relief options (e.g., debt management, settlement, bankruptcy)?	☐	☐
Do you need to consider any collateral effects the expense may have on your financial health (e.g., credit score, premium rates)?	☐	☐

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