

RESOURCE GUIDE



Navigating Self-Employed
Income

Getting a Mortgage When You're Self-Employed

If you're self-employed, you might find it harder to prove your income to lenders compared to those with regular paychecks. Let's look at how lenders view self-employed income, how they calculate it differently, and what documents you'll need to improve your chances of getting a mortgage.

Understanding Self-Employed Income

Lenders look at various documents to assess your income, such as profit and loss statements, tax returns, BAS statements, and financial statements.

Supporting Documentation

Lenders need to verify the income you claim to make sure you can afford the loan payments without financial strain. Here are the key documents you might need:

- **Tax Returns:** You'll need to provide personal and business tax returns for the past two years. These give lenders a detailed look at your income and financial history. Make sure these returns are accurate, current, and filed on time to avoid delays.
- **Profit and Loss Statements:** These statements, also known as income or financial statements, show how well your business is doing financially over a specific period. They should be prepared by a qualified accountant and clearly show your business's profitability.
- **BAS Statements:** Lenders might ask for recent Business Activity Statements (BAS) to check your cash flow, income deposits, and business expenses. These statements help prove your financial stability and ability to repay the loan.
- **Business Registration Documents:** You'll need to show proof of your business registration, like an Australian Business Number (ABN) or Australian Company Number (ACN), to confirm your business is legitimate and its legal structure.
- **Letter from Accountant:** A letter from your accountant can verify your income, business ownership, and financial standing, which can strengthen your mortgage application.
- **Recent Financial Performance:** Lenders often focus on your recent financial performance. Providing up-to-date financial statements, including profit and loss statements for the current year, can show your business's ongoing profitability and financial stability.

General Policies

Non-recurring Income: All non-recurring income, may need to be deducted when assessing serviceability.

ABN Requirement: Most lenders require applicants to have been trading under their ABN for at least 2 years, although others can consider newly established ABNs depending on the circumstances.

Company Liabilities: Can be excluded from servicing if not adding back depreciation or instant asset write-offs.

Depreciation and Write-offs: Instant asset write-offs and depreciation can be added back to profit to assist with serviceability where required.

Super Payments: Discretionary super payments more than the mandatory contributions can be added back to profit to assist with serviceability where required.

Self-Employed Wages: Can be used to service a loan in addition to net profits of the business if the borrower receives a regular and consistent wage.

Deferred Losses: Considered as an addback if accompanied by an explanation.

General Documentation and Verification

Recent Financials: Prefer most recent financial year figures, with exceptions for significant changes.

Business Bank Statements: Used to verify business expenses and income if tax documents are not available.

Alternative Doc Options: Some lenders will consider using either BASs, Bank Statements and/or an Accountant's letter in lieu of tax returns and financial statements. This is a dearer lending option however can be a more flexible lending solution.

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