Calculation of income

Where the borrower's self-employed income in the latest year (year 2) has not increased by greater than 20% compared to the previous year (year 1) then year 2 income can be used. Where the borrower's self-employed income has increased by greater than 20% in year 2 compared to year 1, then year 1 income at 120% can be used. Where the borrower's self-employed income has decreased by greater than 20% in year 2 compared to year 1, then year 2 income can be used supported by a full explanation as to the reason for the decrease in profitability.

See example below:

Mr and Mrs Smith have applied for a loan and have each provided their 2009 and 2010 personal and business taxation returns, and ATO Tax Assessment Notices. Income earned by each applicant from the business is as follows:

	2022 (year1)	2023 (year2)
Mr Smith	$50,000	$57,500 (increase of 15%)
Mrs Smith	$45,000	$58,500 (increase of 30%)

Mr Smith's assessed income is $57,500 based on 2023 income as the income has not increased by greater than 20% between 2022 and 2023.

Mrs Smith's assessed income is $45,000 x 120% = $54,000 based on 2022 income as her income has increased by greater than 20% between 2022 and 2023.

Add backs

An add back is a line item in the profit and loss statement that can be added to the business net pre-tax income in order to arrive at an accurate estimate of the business profitability.

Acceptable add backs include:

- Interest paid on debt being refinanced or included as a liability for assessment purposes
- Income/salaries of directors (where not already included in income calculations) who are co-borrowers on the loan
- Non-recurring expenses (where fully explained)
- Directors' superannuation in excess of the prevailing superannuation guarantee levy

Unacceptable add backs

Depreciation is not an acceptable add back.

Salary Packaging
Salary packaging involves the inclusion of certain fringe benefits in the remuneration package of an employee in exchange for giving up part of their cash salary. The most common benefits include superannuation, vehicle leasing, loan repayments for charity workers, and laptops.

Provided the customer's package is available in cash at their option, then the total package can be treated as gross income (less compulsory superannuation contribution) for loan servicing purposes.

Car Leasing
Where the customer salary packages a car lease, the method of calculating income will differ depending on the customers intention regarding the lease.

If the customer intends to maintain the lease then the lease should not be treated as a liability, but rather the reduced net income after the lease repayments have been deducted should be used. The customer's total package (less compulsory superannuation contribution) can be used as the gross income. Their net income is derived by taking the gross income and deducting the lease payments. This figure is used as the gross income in the tax calculator to arrive at the net income.

If there are post tax deductions for running costs these should not be deducted from the customer's net income or loaded as a separate liability as these would normally be included in cost of living expenses.

If the customer intends to cease the lease payments by either handing the vehicle back or paying out the lease and purchasing the car, then the salary packaging provisions above shall apply.

Evidence should be obtained that the lease is to cease should this method be used.

Car Allowance
50% of the net car allowance can be used as income provided it is a condition of employment and can be verified. Any corresponding lease or hire purchase payments must be included in the servicing calculation.

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