

Please use this guide as a reference for how to assess income and the accepted calculation methods.

*Disclaimer: Lenders must consider all factors that may impact the use of some types of income, in compliance with responsible lending obligations. Further information and/or additional documents may be required to support an application. Reference must be made to Branch Lending Policy when using this guide.*

## Income Assessments

Lenders are required to understand a Member's financial position and base lending decisions on a careful and prudent assessment when considering new or additional lending proposals in compliance with responsible lending obligations in the National Consumer Credit Protection Act (National Credit Act).

Points to consider when determining all income that is available to use for servicing for the new liability:

- How is the Member's income paid to them and other liabilities that need to be considered?  
Is the income consistent? or does it fluctuate? What type of employment is the Member in (e.g. full time, part time, casual)
- Other income sources i.e. non-Standard income, and how reliant is the application on the use of these sources of income?
- Full understanding of the Member's pay slips and verification requirements.

## Definitions - Employment Income

### Full Time/Part Time Permanent

Full-time employees work on a regular basis for an average of 38 hours per week. An employee's actual hours of work are agreed between the employer and the employee, and/or are set by an award or registered agreement (e.g., purchase of additional leave RDO's and averaging of income over a 12-month period).

Part-time employees usually work less than 38 hours per week and generally have regular hours. They receive the same wages and conditions as full time employees on a proportionate or pro-rata basis, according to the hours they work.

### Casual

Casual Employees are engaged on an irregular basis according to the business demands. Things to be mindful of include:

- No expectation of ongoing work
- No obligation to accept offers of work.
- Loading paid on top of their hourly rate of pay.
- No sick or annual leave pay.

In some circumstances, casual employees may be eligible for long service leave and parental leave after being employed for 12 months.

### Fixed Term & Contracts

Employees who work on a fixed term or contract basis are hired for an agreed length of time or to perform a specific task; to work on a particular project or to replace an employee on leave.

Fixed term employees can work full or part-time and are entitled to the same leave entitlements as permanent staff but on a pro-rata basis, depending on the length of employment. There is generally a written agreement outlining the specifics of this employment.

### Shift Workers

Shift workers are employees who work shifts and get paid an extra payment for working shift hours. An award, enterprise agreement or other registered agreement can have a specific definition as to what type of shifts employees who work under these arrangements can work. Understanding the nature of the arrangement is crucial to calculating income and to determine whether the income is sustainable for the term of the loan.

### Non-Standard Allowances

Allowances that are regular and consistent and can be evidenced by two payslips and with the same employer for 6 months are acceptable as non-standard income and can be used for servicing at 80%.

Allowances – extra payments made to employees; some examples are but not limited to:

- Use their own tools for work.
- Work in unpleasant or dangerous conditions
- Uniform or special clothing allowance
- Tools and equipment allowances
- Travel and fares
- Car allowance
- Phone allowance

### Non-Standard Income

Overtime, inconsistent allowances, bonuses, commissions, or any other less stable sources of income may only be included where the amounts can be confirmed as being consistent over a two-year period from the same employer. If calculations are reliant on overtime from a prior employer, then use of the non-standard income may be considered if deemed regular and providing there has not been a material change in role or industry. Applications seeking to adopt non-standard income where a change in employer has occurred must be referred to the Credit Department for acceptance.

Penalty rates – Employees often get a higher pay rate when working:

- Weekends
- Public holidays
- Overtime
- Late night shifts/early morning shifts

### Deductions

A deduction is a payment taken out of an employee's earnings; Employers do this on their behalf. Some deductions are required by law. Others are voluntary.

The four common types are:

- Tax (compulsory)
- Garnishments (compulsory)
- Retirement (voluntary)
- Health insurance (voluntary)

As some payroll deductions are voluntary these may be taken out of a pay on a pre-tax or post-tax basis as long as the employee provided written authorisation. Taxes and wage garnishments, on the other hand, are mandatory and employers who fail to accurately withhold these deductions may be liable for the missing amounts.

### Pre-Tax

When an employee gets paid, there can be numerous deductions that get taken out of their pay before tax is calculated. These deductions usually include things like voluntary payments to super, or salary sacrifice items. Once these amounts have been deducted from the gross pay, the government then calculates the tax payable on the remaining income. Utilising pre-tax dollars to pay for items can save money by reducing the amount you pay in tax.

Types of Pre-tax deductions include, but are not limited to:

- Salary Sacrifice/Fringe Benefits Tax (FBT)
- Tax Free arrangements
- Non-compulsory superannuation payments
- Novated Leases
- Remserv
- Loan repayments

Lender's responsibility includes identification and validation of all components of an acceptable payslip including pre-tax components on the payslips. The lender must understand what they are, the amounts, the consistency, and the likelihood of continuation.

### Fringe benefits tax (FBT)

FBT is a tax paid by employers on certain benefits provided to their employees, or to their employees' family or other associates. FBT is separate to income tax. It's calculated on the taxable value of the fringe benefit.

Example of employees in industries that are exempt:

- Hospital
- Charities
- Public benevolent institutions
- Some age care facilities
- Emergency services

Please be aware that there is a different tax year for FBT – 1 April to 31<sup>st</sup> March, there are different caps for the FBT by industry types.

Lenders are to confirm with the Member the applicable cap and apply this to the income calculations.

### Leasing and Pre-tax Components

A Novated/Remserv Lease is a financial agreement between an employee, their employer and the finance company used to finance the asset (generally a car). The finance company provides the money to make the purchase, and the employer arranges to have regular lease repayments deducted directly from the employees pay. The running costs and part of the lease payments are deducted from pre-tax salary, and this reduces taxable income thus reducing the amount of tax paid.

### Post Tax

This is generally a payment the employee (or court imposed) has organised to be deducted from their salary such as garnishee payments, child support, car payments, and where there is an excess from a pre-tax deduction e.g. lease.

### Income Calculations and Requirements

Whilst a YTD calculation is not generally accepted in a serviceability calculation, lenders may be required to calculate YTD in support of accepted income calculations (i.e., where a borrower has been in role for a short period, in support of an exception request etc.).

#### Full Time

Base wage is calculated on standard rate of pay x standard hours per week x 52 weeks = \$ Gross Base

\$ \_\_\_\_\_ per hour x \_\_\_\_\_ hours x 52 weeks = \$ \_\_\_\_\_ (This is entered into the LAC in the Gross annual)

#### Part Time Permanent

Standard or usual hours and verified by YTD annualised calculation

\$ \_\_\_\_\_ per hour x \_\_\_\_\_ hours x 52 weeks = \$ \_\_\_\_\_ (This is entered into the LAC in the Gross annual)

#### Casual

**Base wage is calculated on standard rate of pay x standard hours per week x 48 weeks = \$ Gross Base**

Casual employment is acceptable where an applicant has been in their casual position for at least six months and has previous employment history of at least two years in a similar role. In all other instances, a minimum of twelve months casual employment is required.

#### Fixed Term & Contracts

**Adopt per contract and verify by payslips and YTD annualised calculation.**

Loan commentary is required to support income (seasonal etc.) and additional information regarding ongoing income after the fixed term/contract ceases is required.

#### Shift Workers

Base wage is calculated at standard rate of pay, shift allowance is considered non-standard income. Loan commentary is required where non-standard income is adopted.

#### Non-Standard Income

Non-standard income is to be manually calculated and input in the LAC shaded to 80% (of the averaged amounts received over the past two-year period from the same employer).

*Example:*

*Total income FY1 + Total income FY2, divided by 2 for average, less total gross annual income = non-standard income x 80%.*

*Gross annual Income: \$50 p/h x 76 hours = \$3,800 p/f x 26 = \$98,800 p/a*

*FY1 - \$120,000*

*FY2 - \$130,000*

*Non-standard income: \$120,000 + \$130,000 = \$250,000 / 2 = \$125,000 - \$98,800 = \$26,200 x 80% = \$20,960 (to be input in the LAC)*

#### Pre-Tax

Pre-tax amounts shown on payslips may be deducted from the gross base income and added back as Non-Taxable income if these are confirmed as regular and verified. Any loan commitment/s must be added to monthly commitments on the LAC with supporting documents required. Calculation and explanation of pre and post inputs are required in the loan commentary.

#### Voluntary Super

Salary Sacrifice Superannuation – Employee contribution that can be ceased at any time, the salary sacrifice arrangement amount (pre-tax) is to be included in the gross income calculation, and not to be added back as non-taxable income. There is no requirement to expense out this amount in the LAC. Calculation and explanation of inputs are required in the Loan Commentary.

#### Compulsory Superannuation

Extra Superannuation contributions by the employee and the employer under the employment agreement. An example of this is where extra superannuation contributions are provided as part of a package and is included in the Member's pretax income e.g. local councils. These contributions are mandatory and are to be deducted from the gross base income and are not permitted as an add back.

Novated Lease/Remserv

The pretax component is to be deducted from the gross base income and added to the non-taxable section of the LAC. The loan repayment must be expensed out in the liabilities section of the LAC. Statement must be provided for the novated lease/Remserv as per documentation requirements. Vehicle expenses that are inclusive in the novated lease/Remserv arrangements are required to be added as an expense in living expenses.

Other (including lease, rent, health insurance, or other commitments)

**The pretax component is to be deducted from the gross base income and added to the non-taxable section of the LAC, less any admin fees. The loan repayment or expense must be expensed out in the liabilities /commitment's other household expenses section of the LAC. Statement to be provided to validate the reimbursement.**

**Post Tax**

Expenses including lease payments are to be added to the monthly commitments on the LAC. Loan commentary and documentation is required.

**HECS-HELP Debts**

HECS-HELP debts are treated as an expense. Conversation with the Member is required to understand the amount of the education debt. Verification of an education debt by way of a statement is required. In instances where the Member cannot reasonably provide a statement, the Australian Government ([ato.gov.au](http://ato.gov.au)) repayment calculator may be utilised to calculate the repayments for the year.

Current HECS-HELP debt will be displayed on the Member's tax return. Where a Member discloses HECS-HELP debt however there is no amount for this debt shown on the payslip this could mean that the Member has arranged the additional debt to be paid or the Member may not have reached the income threshold for repayment to commence. Verification of the education debt via statement or myGov account is still required.

Where the Member has not met the income threshold, is not working in the industry, or any other valid reason, and where the education debt is not expected to be repayable for the life of the loan; the associated debt may be excluded from expenses provided reasonable verification has been fulfilled and satisfactory loan comments are presented.

**Rental Income**

Rental Income is added to the Loan Affordability Calculator (LAC) Investment tab at the full amount, this will carry over with the shading @ 80%

Rental yield calculation – Value of the property / 6% x 100. Refer to Branch Lending Policy 300

**Workers Compensation (WorkCover Qld)**

Workers' compensation payments may be accepted as a satisfactory income source by the credit department only. Applications seeking to rely on this income source must be referred to credit department for assessment.

Where this income is to be relied upon, verification documentation must be obtained including confirmation from WorkCover Queensland, or the relevant state authority (or their solicitor), in a formal letter detailing the amount of payments received, frequency, end date or whether they will be ongoing and any relevant information or terms relating to payment. In addition, confirmation of the Member's return to normal work duties must be held by means of a letter from the Member's Doctor or may be detailed in the WorkCover Queensland (or relevant state authority) letter