

Self Employment – Net Profits can Turbocharge Affordability.

Why we look beyond salary and dividends

You don't need a 500bhp supercar to do the school run - even if you do have one in your garage! Just because you 'can' use something, doesn't mean it's always the best route to take.

When it comes to balancing the books, it might be more prudent for your clients to leave their net profit safely parked in their business, rather than taking it out as salary and dividends.

Often, clients are tempted to withdraw more salary and dividend from their businesses than they need, to boost their mortgage affordability. And this may have downsides in terms of tax liability, as well as a hit to the business' reserves.

This is why we'll use share of net profits after tax and salary when looking at affordability.

Here's how this works in a real life example...

“Self employment carries more risk than PAYE, but can offer great rewards. It's fantastic to see it thriving after a testing few years, due to the pandemic.”

Charlotte Grimshaw

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The effect of taking share of net profit after tax, plus salary.

Scenario 1 - using just salary and dividends

Applicant one – employed earning £40k.
Applicant two – limited company director. Draws salary of £10,800 and dividends of £35k. The business' net profit after tax is £85k – she's a 100% shareholder. Previous year's net profit was £80k.

The couple want to borrow £580k.
Using salaries and dividends, this isn't affordable.

Joint income total scenario 1 = £85,800.

Total max loan = £385,242.

Scenario 2 – using share of net profit after tax plus salary

Scenario 2 = 4.49x total income.

Total income used = £135,800.

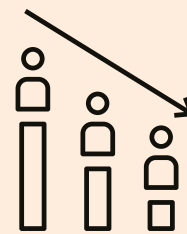
Total max loan = £609,742.

Self employment since the pandemic.

After two decades of growth, the proportion of self employed workers fell during the COVID-19 pandemic

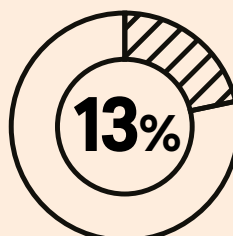
(Source: ONS).

15.3% of total employment in Oct-Dec 2019, down to



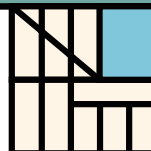
12.9% in Oct-Dec 2021.

By Jan-Mar 2024 the total number of self employed people in the UK was 4.25m, which is approximately



of total employment.

(Statista May 2024)



And finally, a word on self employed mortgages: it's all in the criteria.

Separate self employed products used to be, well, self-explanatory. But now you'll find it's more about the criteria, not the product. Lenders – such as us – offer our main product ranges for your self employed clients. This means they have access to mainstream deals rather than paying a premium for specialist products, and that's always good news.

How we can help:

- We'll accept manual or non-manual income to age 75. After that we look at income that's not from employment, i.e. pensions, investments and property.
- We'll accept non-working directors, such as family members still on the board.
- You need two years of self employed figures with us. But it could be one year of sole trader, and one year of limited company.
- Some lenders take the average of the last two years of accounts, some will take the latest. If there's less than a 20% increase year-on-year, we'll accept the latest year's.

Get in touch.

We've been supporting intermediaries with self employed cases for many years, with an expert support team and manual underwriters available to speak to on the phone.

Self employment stats

The largest age group is

45-54

(Statista May 2024)



As well as those who are full-time self employed, there's a large cohort of employed workers drawing on a part-time self employed income, commonly termed their 'side hustle'. Research from accounting group Sage in May 2024 found nearly half

(47%)

of Brits interviewed were running a second income stream.



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