

Self-Employed Income Documentation Guide

Everything you need to know about proving income and qualifying for a mortgage when you're self-employed in Kelowna and the Okanagan.

Current as of February 2026

WHO THIS GUIDE IS FOR

You are considered **self-employed** by mortgage lenders if you:

- Own and operate a sole proprietorship, partnership, or corporation
 - Work as an independent contractor or freelancer
 - Earn income reported on T2125 (business income), T4A (self-employment / contract), or T2 (corporate)
 - Own 25% or more of a corporation from which you pay yourself a salary or dividends
 - Are a commissioned real estate agent, financial advisor, or other commission-based professional with variable income
-

SECTION 1 — HOW LENDERS CALCULATE YOUR INCOME

Standard Self-Employed Income Calculation

Most lenders use a **2-year average** of your net business income, with add-backs for certain non-cash expenses:

Qualifying Income = Net Income + Eligible Add-Backs

Common add-backs (expenses that are added back to your income because they don't represent actual cash outflow):

- Capital Cost Allowance (CCA / depreciation)
- Vehicle expenses exceeding reasonable personal-use portion
- Home office expenses (in some cases)
- One-time or non-recurring business expenses

Example:

- Year 1 Net Income: \$68,000
- Year 2 Net Income: \$74,000
- CCA add-back (Year 1): \$8,000 | (Year 2): \$8,500
- Adjusted Year 1: \$76,000 | Adjusted Year 2: \$82,500
- **2-Year Average Qualifying Income: \$79,250**

Note: Some lenders use only the most recent year if it is higher. Your broker will identify which lender approach benefits you most.

Alternative Income Programs

If your tax return income is significantly reduced by business deductions, two alternative programs may help:

1. Bank Statement Program

- Provide 12–24 months of business bank statements
- Lender calculates average monthly deposits (after applying a business expense factor, typically 30–50%)
- Good for: service businesses, retail, contractors, real estate investors
- Requires: Minimum 20–35% down payment, higher interest rate

2. Stated Income Program

- You declare your income; lender confirms business is active and income is reasonable for your industry
 - Requires: Minimum 20–35% down payment, strong credit score (680+), and active business registration
 - Lender verifies business existence but does not verify income through tax returns
 - Good for: High-revenue businesses with significant write-offs
-

SECTION 2 — DOCUMENT CHECKLIST BY BUSINESS TYPE

Sole Proprietor or Partnership (Unincorporated)

- Last 2 years of **T1 General personal tax returns** (all pages and schedules)
 - Last 2 years of **T2125 — Statement of Business or Professional Activities** (included in T1)
 - Last 2 years of **Notices of Assessment (NOA)** from CRA
 - Year-to-date Profit & Loss Statement** (prepared by your accountant, signed and dated)
 - Last 3–6 months of **business bank statements** (may be required by some lenders or for bank statement programs)
 - Business licence or registration** confirming business is active
-

Incorporated Business Owner (Corporation)

- Last 2 years of **T1 General personal tax returns** (all pages and schedules)
- Last 2 years of **Notices of Assessment (NOA)** from CRA
- Last 2 years of **T2 Corporate Tax Returns** (all pages)
- Last 2 years of **corporate financial statements** (income statement and balance sheet, prepared by your accountant)
- Year-to-date corporate financial statements** (current year, prepared by your accountant)
- If paying yourself dividends: Last 2 years of **T5 slips**
- Certificate of Incorporation or Articles of Incorporation**

- Confirmation of your **ownership percentage** in the corporation
 - Last 3–6 months of **corporate bank statements**
-

Contractor or Freelancer (T4A Income)

- Last 2 years of **T1 General personal tax returns** (all pages)
- Last 2 years of **T4A slips** from all clients or agencies
- Last 2 years of **Notices of Assessment (NOA)** from CRA
- Current contracts or letter of engagement** from client(s) confirming ongoing work
- Year-to-date income summary** (bank statements or invoice log)

Note: Lenders treat T4A income differently than T4 employment income. A 2-year history in the same field significantly strengthens your application.

SECTION 3 — COMMON CHALLENGES AND HOW TO SOLVE THEM

Challenge 1: My income looks low on paper due to tax write-offs

Solution: Work with your accountant to identify legitimate add-backs before applying. We submit a reconciliation to the lender showing your true cash income. Strategic timing matters — apply after a strong income year, not a low one.

Challenge 2: I haven't been self-employed for 2 full years

Solution: Some lenders accept 1 year of self-employment if you were previously employed in the same industry or profession. For example, a nurse practitioner who recently opened a private clinic may qualify with 1 year of self-employment history supported by a prior 2-year employment history as a nurse.

Challenge 3: My business income fluctuates significantly year to year

Solution: Lenders average your last 2 years. We present your file with context — explain one-time low-income years caused by startup costs, a large capital investment, or exceptional business expenses. A written explanation letter from you (and sometimes your accountant) can help underwriters see the full picture.

Challenge 4: I pay myself through dividends rather than a salary

Solution: Dividends are counted as income by most lenders but may be discounted. Some lenders gross up dividends to a pre-tax equivalent. We identify lenders whose policies treat dividend income most favorably for your profile.

Challenge 5: I own investment properties in addition to my business

Solution: Rental income can support your application if documented properly. Provide current signed leases and the last 12 months of bank statements showing rental deposits. Most lenders use 50–80% of gross rental income toward qualification.

SECTION 4 — TIMELINE AND TIPS

Ideal Timeline to Prepare for a Mortgage Application

12 months before applying:

- Review your last 2 years of tax returns with your accountant
- Identify large one-time deductions that may be added back
- Consider whether a bank statement or stated income program might serve you better

6 months before applying:

- File any outstanding tax returns and ensure NOAs are received
- Minimize new business debts or personal credit applications
- Maintain clean banking records — regular income deposits help support bank statement programs

2–3 months before applying:

- Request updated financial statements from your accountant
- Gather all documents listed in Section 2
- Contact us for a pre-qualification review — we can identify gaps before they cause delays

At application:

- Provide complete, organized documents upfront
- Prepare a brief written summary of your business for the lender: what you do, how long you've operated, your client base, and your income trend
- Be available to respond to lender follow-up questions quickly — delays in your response slow approval

SECTION 5 — CREDIT AND DOWN PAYMENT

Self-employed borrowers benefit from:

Strong credit (680+): Opens more lender options and better rates. Pull your own credit report at Equifax.ca or TransUnion.ca 6 months before applying and address any errors or old collections.

Larger down payment: A 20%+ down payment eliminates CMHC insurance and opens access to lenders who require it for self-employed borrowers. Many bank statement and stated income programs require 20–35% down.

Clean banking history: Avoid NSF (non-sufficient funds) charges, overdrafts, or large unexplained cash deposits in the 3–6 months before applying.

Ready to discuss your self-employed mortgage options?

Contact Michelle Scheibel, My Kelowna Mortgage [Phone] | [Email] |
www.mykelownamortgage.ca

This guide is for general information only and does not constitute financial or tax advice. Income documentation requirements vary by lender and are subject to change. Always consult a licensed mortgage professional and your accountant before making mortgage decisions. Current as of February 2026.

