

PPP Loan Forgiveness Accounting and Tax Treatments

As of June 12, 2020, the SBA had approved 4,566,440 PPP loans for \$512,016,791,046, an average loan size of \$112,126 through 5,456 lenders. That is a lot of priming of the economic pump.

We're now at the point of some of the early borrowers applying for forgiveness of their loans, assuming they are electing the eight-week covered period rather than the optional 24-week covered period. And also, assuming the SBA gets the revised Loan Forgiveness Application, Form 3508, published, which they have not as of this writing.

Below I've got the official accounting guidance with my translations and comments.

Accounting Treatment

Besides the rules for getting the loan forgiven, questions are now coming up about how the accounting should work. It all seemed pretty simple to me, so of course we've got to complicate it a bit.

From the American Institute of Certified Public Accountants:

"How should a nongovernmental entity account for a forgivable loan received under the SBA PPP?"

Translation: How should a business record their PPP loan?

From the SEC:

"Although the legal form of the PPP loan is debt, some believe that the loan is, in substance, a government grant. Staff of the Office of the Chief Accountant of the SEC have indicated they would not object to an SEC registrant accounting for a PPP loan under FASB *Accounting Standards Codification* (ASC) 470, *Debt*, or as a government grant by analogy to International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*, provided certain conditions are met."

Translation: Record the PPP loan as a liability, like any other debt, until it is forgiven.

Comment: "Would not object" means it is okay. This guidance is for publicly-traded companies, who are given the option of recording the loan as debt or as deferred revenue to be recognized over the period qualifying expenses are incurred. Just record it as a liability.

From the FASB:

When the loan is forgiven, the Financial Accounting Standards Board (FASB) has this to say:

“For purposes of derecognition of the liability, FASB ASC 470-50-15-4 refers to guidance in FASB ASC 405-20. Based on the guidance in FASB ASC 405-20-40-1, the proceeds from the loan would remain recorded as a liability until either (1) the loan is, in part or wholly, forgiven and the debtor has been ‘legally released’ or (2) the debtor pays off the loan to the creditor. Once the loan is, in part or wholly, forgiven and legal release is received, a nongovernmental entity would reduce the liability by the amount forgiven and record the gain on extinguishment.”

Translation: When the loan is forgiven, write it off and recognize the amount as revenue.”

Comment: Don’t use words like “derecognition” unless you’re a complete fool. Previous guidance from Treasury was that the forgiven amount should be recorded not as revenue but as “Nonowner contribution to capital.” This makes sense to me but recognition as revenue seems to be the prevailing guidance. There is a lot more on this topic but I’ll spare you.

Tax Treatment

Remember, forgiveness of debt income is normally taxable. In this case, the law specifically states it is not taxable. Thus, it is revenue for book purposes but not for tax purposes. The expenses that qualify the borrower for loan forgiveness are not deductible for tax purposes, following the general rule that you can’t deduct something you didn’t pay for. In this case, the borrower has been reimbursed, so no deduction. Similar to the revenue, they are expenses for book purposes but not for tax purposes. Let your tax preparer know. They know what to do with book-to-tax differences.

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