Dannible & McKee, LLP

Certified Public Accountants and Consultants

Delivering **Confidence**

Accounting, Reporting, and Corporate Governance Update

Kenneth C. Gardiner, CPA, CCIFP, CDA
Benjamin A. Sumner, CPA

Annual Tax & Financial Planning Conference
November 12, 2020

Kenneth C. Gardiner, CPA, CCIFP, CDA
Audit Partner

Email: Kgardiner@dmcpas.com

Web: www.dmcpas.com

Address:
DM Financial Plaza
221 South Warren Street
Syracuse, NY 13202

Phone: (315) 472-9127, ext. 123

Outline

1. Accounting Update
2. LIBOR Rate's Future
3. Pension/ERISA Update
4. PPP Accounting and Forgiveness

1. ACCOUNTING UPDATE

Extension of Leasing and Rev Rec

- In June of 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers and Leases: Effective Dates for Certain Entities (Private and NPO's)*

- Extends revenue recognition and Leasing standard required implementation by one year.

- ASC 606 – *Revenue from Contracts with Customers* now required to be implemented for annual years beginning after **December 15, 2019** (**2020**).

- ASC 842 – *Leases* now required to be implemented for annual years beginning after **December 15, 2021** (**2022**).

Revenue Recognition

Core Principle

- An entity shall recognize revenue to depict the **transfer** of goods or services to the customer in an amount that reflects the consideration the entity receives, or expects to receive, in exchange for those goods or services provided.

Revenue Recognition

Five steps to apply the core principle:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the entity satisfied a performance obligation.

Revenue Recognition – Observations

- We have now implemented the standard for a wide variety of clients.
- Largely resulted in many new disclosures, very few adjustments.
  - But you can't assume there is no impact, you must document that the standard has no effect.
- The most significant change effects contracts that have large upfront costs before any product or service is transferred to the customer. Mobilization on heavy highway contracts, tooling that is not charged to the customer. We also found some costs that were inventory, rather than construction costs at year end. Lighting fixtures purchased but not installed.

Leases

ASU 2016-02 – Leases

- Issued on February 25, 2016.
- All leases will be capitalized. It is estimated that $2 trillion in liabilities will be added to balance sheets when the standard becomes effective!
- Must be adopted retrospective to the beginning of the earliest year presented in the financial statements.
- The **only exception is for leases of 12 months or less**, these leases can still be expensed.

Lessees

Lease Classification for Lessees

- Two approaches based on the "lease classification test."
  - ✓ Approach A – Financing Type (Current "Capital Lease")
  - ✓ Approach B – Operating Type

The only difference is how you charge the lease asset and payments to operations.

Lessees

Approach A – Financing Type (Capitalized)

- Separately reflected in P&L.
- Present value the lease liability with interest expense.
- Amortize right of use asset on a straight line basis.
- Variable lease payments incurred after commencement are operating expense.
- Shorter of the estimated lease term or underlying asset's useful life.
- If significant economic incentive to exercise a purchase option, amortize asset to end of useful life of underlying asset.

Lessees

Approach A – Financing Type (Capitalized)

	Year 1	Year 2	Year 3	Year 4	Total
Interest Expense	$ 28,911	$ 23,773	$ 17,541	$ 9,775	$ 80,000
Amortization Expense	105,000	105,000	105,000	105,000	420,000
Total	$ 133,911	$ 128,773	$ 122,541	$ 114,775	$ 500,000

Lessees

Approach B – Operating Type, Straight-line Approach.

- For all leases **not** meeting the Financing criteria above.
- Depreciate the "right-of-use" asset each period as a balancing figure such that the total lease expense would be recognized on a straight-line basis regardless of timing of lease payments.
- Recognize lease expense **as a single cost in the income statement.**
- Combine effective interest on lease liability with amortization of ROU asset so that the remaining cost of lease is allocated over remaining lease term equally on a straight-line basis.

Lessees

Approach B – Operating Type, Straight-line Approach.

	Year 1	Year 2	Year 3	Year 4	Total
Interest Component	$ 28,911	$ 23,773	$ 17,541	$ 9,775	$ 80,000
Amortization Component	96,089	101,227	107,459	115,225	420,000
Total Lease Expense	$ 125,000	$ 125,000	$ 125,000	$ 125,000	$ 500,000

What have we learned from Public Company Implementation?

- **Start Early**
  - Many have reported that implementation was more challenging and required larger cross-sectional effort than expected.
- **Review Agreements and Lease Inventory**
  - Identification of the population of leases and review of all lease agreements was consistently noted as a challenging aspect of implementation.
- **Accounting Software Selection**
  - Testing of your current accounting system is critical to identify its ability to handle the new reporting requirements. Do you need to invest in new software?
- **Accountant Communication**
  - Communicate early with your auditor or accountant in order to understand their process of auditing or reviewing the leasing activity and financial statement disclosures.

Polling Question #1

2. LIBOR Rate's Future

LIBOR Rate's Future?

Is LIBOR really being discontinued?

– Yes, all indications are that LIBOR will cease to exist at some point over the next few years.

When?

– Presumed to be end of 2021 or early 2022 due to the pandemic.

How is the financial services industry preparing?

– Federal Reserve ("the Fed") established the Alternative Reference Rate Committee (ARRC) to explore the replacement for USD LIBOR.

– ARRC has recommended the **Secured Overnight Financing Rate** (**SOFR**) as the alternative rate index.

– ARRC published the Paced Transition Plan, outlining specific steps and timeliness for the transition to and implementation of SOFR, including developing the framework for term-structure SOFR.

– International Swaps and Derivatives Association (ISDA) is conducting consultations on the benchmark transition.

Understand "SOFR"

The Market's Proposed Replacement Rate

What is SOFR?

- SOFR, the Secured Overnight Financing Rate, is the presumptive replacement for USD LIBOR.
- Designed and implemented by the Federal Reserve Bank of New York (FRBNY) and the U.S Treasury office of Financial Research (OFR).
- Reflects overnight U.S Treasury repo transaction activity nearing ~$750 billion daily.

Understand "SOFR"

The Market's Proposed Replacement Rate

How does SOFR differ from LIBOR?

LIBOR	SOFR
– Unsecured rate	– Secured rate
– Various maturities	– Overnight, for now
– Built-in credit risk component	– Essentially, a risk-free rate
– Partially transaction based	– Wholly transaction based
– $500 *million* underlying transactions	– $750 *billion* underlying transactions

Takeaway: SOFR does <u>not</u> equal LIBOR!

LIBOR Rate's Future – What's next?

- **Educate stakeholders in your organization**
  - Who needs to know?
    - Accounting and finance
    - Legal
    - Members with signatory authority
  - What do they need to know?
    - "Fallback language"
    - What is SOFR
    - What contracts utilize LIBOR?
- **ASU 2020-04 *Reference Rate Reform* issued March 2020**
  - Intended to ease the transition with certain practical expedients

Polling Question #2

Benjamin Sumner, CPA
Audit Partner

Email: bsumner@dmcpas.com

Web: www.dmcpas.com

Address:

DM Financial Plaza
221 S. Warren St.
Syracuse, New York 13202-1628

Phone: (315) 472-9127, ext. 221

3. ERISA/PENSION UPDATE

2020 Pension Update

- 2021 Pension Limits
- CARES ACT
- SECURE ACT
- Hardship Amendments
- Cycle 3 Restatement
- SAS No.136: ERISA Section 103(a)(3)(C) Audits

2021 Pension Limits

	2021	2020	2019
401k Elective Deferrals (Section 402g)	$ 19,500	$ 19,500	$ 19,000
Catch-Up Contribution Limit (Section 414v)	$ 6,500	$ 6,500	$ 6,000
Annual Defined Contribution Limit (Section 415)	$ 58,000	$ 57,000	$ 56,000
Annual Compensation Limit (Sections 401, 404, 408)	$ 290,000	$ 285,000	$ 280,000
FICA Wage Limit	$ 142,800	$ 137,700	$ 132,900
SIMPLE Employee Deferrals	$ 13,500	$ 13,500	$ 13,000
SIMPLE Catch-Up Deferrals	$ 3,000	$ 3,000	$ 3,000

Coronavirus Aid, Relief, and Economic Security Act (CARES ACT)

- May be eligible for **Coronavirus-Related Distributions** (CRD) if you satisfy one of the following criteria:
  - You are diagnosed with COVID-19 with a test approved by the CDC.
  - Your spouse or dependent is diagnosed with COVID-19.
  - You have experienced adverse financial conditions:
    - Due to quarantine
    - Being furloughed or laid off
    - Reduced work hours
    - Unable to work due to lack of childcare

Coronavirus Aid, Relief, and Economic Security Act (CARES ACT)

- A CRD is equal to the lesser of:
  - (i) the balance of your vested account; or
  - (ii) $100,000
- CRDs are only available until December 30, 2020
- CRDs are subject to flat 10% withholding rate, unless elected otherwise
- CRDs are exempt from the 10% early withdrawal penalty

Coronavirus Aid, Relief, and Economic Security Act (CARES ACT)

- Must include CRDs in federal tax return in year received, however:
  - Can elect to include the taxable portion of the distribution in income ratably over the 3-year period (2020, 2021, 2022).
  - Part or ALL of the CRD can be repaid to a qualified retirement plan or IRA within three years of receipt:
    - **File amended tax returns to request refund of prior tax paid**

Coronavirus Aid, Relief, and Economic Security Act (CARES ACT)

- If your plan allows for **<u>participant loans</u>**, the CARES ACT:
  - Allowed (through September 22, 2020) a temporary increase in maximum loan amount available equal to the lesser of:
    - (i) the value of your vested account; OR
    - (ii) $100,000
  - Allows suspension of loan repayments on any existing loan through December 31, 2020.

Coronavirus Aid, Relief, and Economic Security Act (CARES ACT)

- **Effective date** – CRD and Loan Provisions are **OPTIONAL**, however:
  - If elected, Plan amendments need to be adopted by the last day of the first plan year that begins after 12/31/2021.
    - Calendar year plans would be by 12/31/2022.

The Setting Every Community Up for Retirement Enhancement (SECURE) Act

- Signed into law on 12/20/2019
- Objective:
  - Improve retirement security to those who don’t have access to workplace retirement plan;
  - Expands workplace coverage;
  - Provides protection for older, longer service worker;
  - Reduce employer administrative burden; and
  - Various other provisions.

The Setting Every Community Up for Retirement Enhancement (SECURE) Act

- Employer Tax Credits Available
  - Start a ***<u>NEW</u>*** 401K Plan with up to 100 Non-Highly Compensated Employees (i.e. SIMPLE Plan)
    - Tax credit available is the greater of:
      - $500

        OR
      - Lesser of:
        - » $250 for each eligible NHCE

          OR
        - » $5,000

The Setting Every Community Up for Retirement Enhancement (SECURE) Act

- Employer Tax Credits Available (Continued)
  - For plans that implement <u>auto-enrollment</u> in 2020 or later:
    - $500 tax credit available.
  - If an employer starts a **<u>NEW</u>** plan **<u>AND</u>** implements auto enrollment, they will qualify for **<u>BOTH</u>** credits!!

The Setting Every Community Up for Retirement Enhancement (SECURE) Act

- Impact of SECURE Act on **ALL** plans
  - Increases the age triggering RMDs from 70 ½ to 72
  - Prohibits plan loans through credit cards or similar arrangements after 12/31/2019
  - Changes rules for distributions up to $5,000 for “qualified birth or adoption” of a child:
    - In-service distributions allowed, and
    - Are exempt from 10% early distribution penalty

The Setting Every Community Up for Retirement Enhancement (SECURE) Act

- Impact of SECURE Act only on **401K plans**
  - Increases cap on auto escalation from 10% to 15% effective for plan years beginning after 12/31/2019
  - Eliminates the safe harbor notice requirement for some plans using the non-elective contribution method
    - Safe harbor notice is still required for employer matching contribution safe harbor
  - Enhances the ability to add a safe harbor non-elective contribution provision

The Setting Every Community Up for Retirement Enhancement (SECURE) Act

- Impact of SECURE Act only on **401K plans** (continued)
  - Requires employers with a 401K feature to allow long-term, part-time employee to participate, if
    - Employee works at least 500 hours of service in three consecutive years
      - Eligible employees may be excluded from coverage testing, i.e. ADP testing, etc.
      - Employers may impose an age requirement of 21 for long-term, part-time employees

The Setting Every Community Up for Retirement Enhancement (SECURE) Act

- **Effective date** – Most provisions in effect on January 1, 2020.

- Plan amendments need to be adopted by the last day of the first plan year that begins after 12/31/2021
  - Calendar year plans would be by 12/31/2022

Hardship Amendments

- Addressed in the Bipartisan Budget Act of 2018, effective **January 1, 2019**.
- Allows withdrawals from additional contribution types:
  - Qualified Non-Elective Contributions (QNEC)
  - Safe Harbor Qualified Matching Contributions (QMAC)
  - Qualified Automatic Contribution Arrangements (QACA match)
- Removes the requirement to take a loan before taking hardship withdrawal.
- Removes the six-month suspension of employee contributions to the plan after taking hardship (for distributions made after 12/31/2019).
- Added an additional hardship reason for expenses and losses incurred on account of a federally declared disaster.

Polling Question #3

Cycle 3 Restatement

- Every six years, the IRS REQUIRES company-sponsored retirement plans to update their plan document
- The plan document must be re-written to incorporate changes from any mandatory or voluntary amendments
- This is a **MANDATORY RESTATEMENT** for ALL qualified retirement plans that use an IRS-Pre-Approved plan document
- Must be **COMPLETED** by July 31, 2022

Cycle 3 Restatement

- What **WILL** be included in the restatement?
  - 2017 cumulative List
    - Inclusion of Windsor decision – definition of marriage and spouse
    - Mid-year reduction or suspensions of safe harbor contributions
    - Other mid-year safe harbor 401K amendments per IRS Notice 2016-16
    - Use of forfeitures to offset safe harbor contributions
    - Language for rollover from plan account to plan's designed Roth account
    - Certain ESOPs can now be preapproved

Cycle 3 Restatement

- What **<u>WILL NOT</u>** be included in the restatement?
  - CARES Act amendments
  - SECURE Act amendments
  - Hardship Withdrawal amendments (Bipartisan Budget Act of 2018)
- Providers **<u>MUST</u>** maintain "interim amendments" or "snap on amendments" for these changes

Cycle 3 Restatement

- Points to consider during the restatement:
  - Good opportunity to re-evaluate plan provisions.
  - Explore if there are any changes that can make the plan operate more efficiently.
  - Evaluate company objectives, annual test results, etc. to maximize the plan provisions.

New Benefit Plan Audit Opinion - SAS No. 136

- Statement on Auditing Standards No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*
  - Originally effective for periods ending after 12/15/20, no early adoption permitted
  - **SAS 141 issued in May 2020** delayed adoption until periods ending after 12/15/21, but with early adoption permitted

New Benefit Plan Audit Opinion - SAS No. 136

- Major changes
  - ERISA Section 103(a)(3)(C) Audit
    - Formerly known as "Limited-Scope Audit"
    - **NOT** considered scope limitation
    - Auditor will not longer issue a disclaimer of opinion
  - New report will be two-pronged opinion:
    - Opine on whether information not covered by certification is presented fairly
    - Opine on whether the certified investment information in the financial statements agrees to, or is derived from, the certification

New Benefit Plan Audit Opinion - SAS No. 136

- Major changes:
  - Changes form and content of the auditor's report
    - Requires a new ordering of certain report elements
      - **Opinion – required to be placed first**
      - Basis for opinion
      - Going Concern, if applicable
      - Key Audit Matters, if applicable
      - Responsibilities of Management for the Financial Statements
      - Auditor's Responsibilities for the audit of the Financial Statements
      - Other Matter – Supplemental Schedules Required by ERISA

New Benefit Plan Audit Opinion - SAS No. 136

- Major changes
  - Review of Draft Form 5500
    - **Must** read the draft Form 5500 in order to identify material inconsistencies, if any, with the audited plan financial statements
    - Review must be completed prior to dating auditor's report
    - Need to coordinate timing with final audit evidence, i.e. legal representation letter response, if applicable

Polling Question #4

4. Paycheck Protection Program

Paycheck Protection Program (PPP)

- Overview -

- SBA unsecured loan program with potential for 100% forgiveness made available through the CARES Act.
- Total funding made available:
  - First Round - $349 Billion (Began April 3, 2020).
  - Second Round - Additional $320 Billion (Began April 27, 2020, closed August 8, 2020).
- Available to small businesses & non-profits (Under 500 employees).
- Business owners had to certify economic need.

Paycheck Protection Program (PPP)

- Overview -

- Maximum loan size was $10,000,000, required to be disbursed within 10 days of loan approval.
- Loan amount was determined based on average monthly "payroll costs" multiplied by 2.5.
- Payroll costs include:
    - Compensation paid to employees (salary, wages, commissions - capped at $100,000 annualized per employee)
    - Payment for vacation, parental, family, medical, or sick leave
    - Payment for the provision of employee benefits (group health care and retirement)
    - State and local taxes assessed on compensation

Paycheck Protection Program (PPP)

- Overview -

- Several issues led to mass confusion and delays in application!
  - What time period is used to calculate average payroll?
  - Are employer paid FICA taxes considered a "payroll cost"?
  - How is the $100,000 compensation cap figured?
  - How do sole proprietors and owners of pass-through entities determine compensation if there is no set salary?
  - How is the 500 employee threshold determined?
  - How is economic need determined?
- U.S. Treasury issued FAQ's with answers addressing many of these questions.

home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf

Paycheck Protection Program (PPP)
- Statistics -

- **Round one (4/3/20 – 4/16/20)**
  - Loan count: 1,661,367 loans
  - Net approved dollars: $342,277,999,103
  - Average loan size: $206,022
  - NYS: 81,075 loans; $20,345,681,101 ($250,949 average)
- **Total Program (through 8/8/20)**
  - Loan count: 5,212,128 loans
  - Net approved dollars: $525,012,201,124
  - Average loan size: $100,729
  - NYS: 348,870 loans; $38,699,947,686 ($110,929 average)

PPP Loan Initial Accounting

- **So, you received the money, now what??**
  - Our recommendation – Segregate those funds.
    - Separate bank account; or
    - Separate general ledger account
  - Initial accounting should be:
    - Debit: Cash $XXX,XXX
    - Credit: PPP Loan (Debt) $XXX,XXX
  - Continue to record expenses as you have in the past.
  - Move PPP funds out of segregated cash account and into operating cash account as needed for eligible expenses.

PPP Loan Forgiveness

- **How is forgiveness amount determined?**
  - The loan may be forgiven partially, or in whole, based on usage of loan proceeds for eligible expenses over the "Covered Period."
  - The Covered Period is either:
    - (1) the 24-week (168-day) period beginning on the PPP loan disbursement date; or
    - (2) if the borrower received its PPP loan before June 5, 2020, the borrower may elect to use an eight-week (56-day) Covered Period.
  - Eligible expenses for loan forgiveness include:
    - Payroll costs, as defined above (at least **60%** of total forgiveness amount); and
    - Nonpayroll costs (up to **40%** of total forgiveness amount)
      - Interest on business mortgage obligations (personal or real property loans originating prior to February 15, 2020);
      - Business rent or lease payments in force prior to February 15,2020; and
      - Business utility payments for services that began before February 15,2020, including electricity, gas, water, transportation, telephone, or internet access.

PPP Loan Forgiveness

- Forgivable amount will be reduced if during the Covered Period when compared to the applicable reference period there is a:

  1) Reduction in Average Full-Time Equivalency (FTE)
     - FTEs are calculated one of two ways (may only use one method)
       - For each qualifying employee, divide # of hours per week by 40; or
       - Use 0.5 for every employee that works less than 40 hours/week.
     - Reduction quotient determined by dividing average monthly FTEs for covered period by the average weekly FTE's for the chosen applicable reference period (either (i) February 15, 2019 to June 30, 2019, or (ii) January 1, 2020 to February 29, 2020).

  2) Reduction in average annual salary/wage for any employee of greater than 25%
     - Applicable reference period is January 1, 2020 to March 31, 2020.
     - Amount in excess of 25% is a dollar for dollar reduction in forgiveness amount.

PPP Loan Forgiveness

- **Reduction Safe Harbors and Exceptions**

1) Safe Harbor #1 (FTE Reductions)

   - For Borrowers that are unable to return to the same level of business activity prior to February 15, 2020, due to compliance with requirements/guidance between March 1, 2020 and December 31, 2020 from:
     - CDC
     - Secretary of Health and Human Services
     - OSHA

2) Safe Harbor #2 (FTE Reductions)

   - If the Borrower reduced its FTE employee levels in the period beginning February 15, 2020, and ending April 26, 2020; and
   - The Borrower then restored its FTE employee levels by not later than December 31, 2020 to its FTE employee levels in the Borrower's pay period that included February 15, 2020.

PPP Loan Forgiveness

- **Reduction Safe Harbors and Exceptions**

   1) Six exceptions to reduction. For any employees during the Covered Period:

      1. The Borrower made a good-faith, written offer to rehire an employee, which was rejected by the employee;
      2. Were fired for cause;
      3. Voluntarily resigned;
      4. Voluntarily requested and received a reduction of their hours;
      5. Borrower made a good faith, written offer to restore any reduction in hours at the same salary or wages, but the employee rejected; and
      6. Borrower was unable to hire similarly qualified employees for unfilled positions by December 31, 2020.

–These scenarios will not result in a reduction in loan forgiveness.

PPP Loan Forgiveness

- **Forgiveness Application Process**
  - Three different applications:
    1. 3508 (Full application);
    2. 3508EZ – Only for the following borrowers:
       a) Self employed and have no employees;
       b) Did not reduce the salaries or wages of their employees by more than 25%, and did not reduce the number or hours of their employees; or
       c) Experienced reductions in business activity as a result of health directives related to Covid-19 and did not reduce the salaries or wages of their employees by more than 25%.
    3. 3508S – Only for the following borrowers:
       a) Received a PPP Loan of $50,000 or less.

PPP Loan Forgiveness

- **Forgiveness Application Process**
  - Documentation to submit with the application:
    1. Bank statements supporting cash wages paid;
    2. Payroll reports;
    3. Payroll Tax filings;
    4. Payment receipts, cancelled checks, or account for employer contributions to employee health insurance and retirement plans;
    5. Documentation supporting FTE calculations;
    6. Loan and lease agreements supporting existence prior to 2/15/20;
    7. Amortization schedules, account statements supporting interest payments on business mortgages during Covered Period;
    8. Invoices, cancelled checks, account statements supporting business rent and utility payments made during Covered Period; and
    9. Other documentation must be maintained, but not submitted.

PPP Loan Forgiveness

- **Forgiveness Application Process**
  - Once submitted to the lender, lenders have **60 days** to review your application and submit their decision to the SBA.
  - SBA then has **90 days** to evaluate your application.
  - If application is submitted within **10 months** after the end of the Covered Period, the borrower is not required to make any payments until the forgiveness amount is remitted to the lender by SBA.
  - If the loan is fully forgiven, the borrower is not responsible for any repayments.
  - Any portion that is not forgiven is subject to repayment with 1% interest
    - 2-year term for loans originated prior to June 5, 2020 (can request extension to 5 years)
    - At least a 5-year term for loans originated on June 5, 2020, or later

PPP Loan Forgiveness - Accounting

- **How to Account for Forgiveness**
  - The amount of the forgiveness should be brought into income, generally recorded as "Other income" in financial statements.
    - Debit: PPP Loan (Debt) $XXX,XXX
    - Credit: Other Income $XXX,XXX
  - Consider using the title **"PPP Loan Forgiveness"** or something similar in your financials.
  - *But **WHEN**?*
  - Two potential sources of conflicting guidance:
    - FASB ASC Topic 470, *Debt*
    - IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*
  - SEC has indicated it would not object to an SEC registrant accounting for a PPP loan under either standard.

PPP Loan Forgiveness - Accounting

- **How to Account for Forgiveness**
  - FASB ASC Topic 470, *Debt*
    - Initially record the cash inflow from the PPP loan as a financial liability and accrue interest.
    - Do not impute additional interest at a market rate.
    - Continue to record the proceeds from the loan as a liability until either:
      - (1) the loan is partly or wholly forgiven, and the debtor has been legally released; or
      - (2) the debtor pays off the loan.
    - Reduce the liability by the amount forgiven and record a gain on extinguishment **once the loan is partly or wholly forgiven and legal release is received**.

PPP Loan Forgiveness - Accounting

- **How to Account for Forgiveness**
  - IAS 20, Accounting for Government Grants and Disclosure of Government Assistance
    - Nongovernmental entity that is not an NFP (a business entity):
      - Expects to meet the PPP's eligibility criteria; and
      - Concludes that the PPP loan represents a grant that is expected to be forgiven; then
      - It may analogize to IAS 20 to account for the PPP loan.
    - Once there is **reasonable assurance** that conditions for forgiveness will be met:
      - ***Income can be recognized*** **systematically in the same period as related costs**.

PPP Loan Forgiveness - Accounting

- **How to Account for Forgiveness**
  - Other considerations
    - Tax treatment of related expenses
      - Deferred taxes (C-Corp.)
    - Subsequent events
      - Non-calendar year end companies –
        - Have you satisfied ALL conditions for forgiveness?
        - Can you be reasonably certain that forgiveness will occur?
        - Would you benefit from waiting to recognize revenue?
      - Application submitted prior to year end, but not approved until after year end?

Questions

Circular 230

Any tax advice contained herein was not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.

Copyright / Disclaimer