

# DOCUMENTATION & ACCOUNTING FOR PPP LOAN FORGIVENESS

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As many of our clients have already started receiving their Payroll Protection Program (PPP) loan proceeds, the Saltmarsh COVID Recovery Response Team is recommending guidelines for how these loans should be handled, both from the operations and accounting (recording on the books) standpoints. These are only meant to be guidelines and may vary based on particular circumstances.

1. PPP loan proceeds should be deposited into a separate bank account, preferably one with no fee.
2. The amount of PPP loan proceeds should be recorded as a Payroll Protection Program loan payable on the balance sheet.
3. The proceeds should only be used for expenses that are eligible for forgiveness such as payroll, rent, utilities, and mortgage interest.
  - a. Payroll costs include salary, wages and tips up to \$100,000 of annualized pay per employee, as well as covered benefits for employees, such as health care expenses, retirement contributions, and state unemployment insurance premiums.
  - b. Utilities are defined under the CARES Act as a payment for a service for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020.
4. Amounts required for payroll may need to be transferred to another bank account if company uses a 3<sup>rd</sup> party payroll provider. The amount transferred should only include the payroll costs outlined above, e.g., amounts would not include employer share of FICA/Medicare.
5. Once forgiveness amount is determined by the bank, the amount forgiven should be recorded as Other Income by debiting the Payroll Protection Program loan payable and crediting Payroll Protection Program loan forgiveness income.
6. Even though loan forgiveness amounts will be recorded as Other Income on the books, amounts are not considered taxable income. Therefore, there will be a book/tax difference on the tax return and a reduction in book income when arriving at taxable income on the tax return for 2020.
7. Sole proprietors who have received PPP loan proceeds should follow the same procedures as above. However, the amount that is forgiven related to their owner compensation replacement, which is the amount equal to  $8/52 \times \text{Line 31 of their 2019 Sch C}$ , may be considered self-employment income to them in 2020.

Below are two Interim Final Rule documents issued by the Small Business Administration that provide additional information:

- [Business Loan Program Temporary Changes; Paycheck Protection Program](#)
- [Additional Eligibility Criteria and Requirements for Certain Pledges of Loans](#)

## QUESTIONS?

If you have specific questions, please reach out to your engagement shareholder, manager or another member of [COVID Recovery Response Team](#). General questions and inquiries can be directed to Jayme Terrell at [jayme.terrell@saltmarshcpa.com](mailto:jayme.terrell@saltmarshcpa.com) or by calling (800) 477-7458.

Visit our [COVID-19 RESOURCE HUB](#) for ongoing updates and information. Due to the ever-changing nature of this event, you should always consult the appropriate professionals.