

PPP LOAN FORGIVENESS

How it works for PYM

Spring 2020

PPP cash received	\$ 311,600
PPP cash spent	\$ 311,600
PPP cash left	\$ -

► In Spring 2020, PYM received a Paycheck Protection Program (PPP) loan from the Small Business Administration (SBA). The \$311,600 loan amount was based on PYM payroll and benefits.

► PYM promptly spent the loan proceeds on payroll and benefits, as required.

Because PYM spent the cash and complied with the terms of the loan, we could apply for loan forgiveness. The SBA forgave PYM's loan in June 2021.

Loan forgiveness is a non-cash event called Cancellation of Debt or COD, a kind of non-cash income.




**your bank account –
money you have** \$ 2,000

**your credit card debt –
money you owe** \$ 1,000

your net assets \$ 1,000

▶ COD as non-cash income is a tricky concept. Let's imagine you have money in the bank and some credit card debt.



**your bank
account – money
you have**

\$ 2,000

**your credit card
debt – money you
owe**

\$ -

your net assets

\$ 2,000

► Your bank ran a contest. You won! Your credit card debt is cancelled.

► Congratulations! Your net assets have increased by the amount of debt you no longer have to repay.

Surprise! The IRS views that increase in “wealth” from COD as taxable non-cash income.

Since you are an individual (and not a nonprofit), you will have to report cancelled debt as taxable income on your next tax return -- even though you didn't earn any additional “income” in the usual sense and your bank account didn't change.

PYM's bank account did not change either when its loan was forgiven. PYM didn't earn any additional income. And PYM, of course, will not pay any tax.

PYM's net assets increased by \$311,600 because we no longer owe that amount to the SBA.

Loan forgiveness was a non-cash event. It will be reported below the operating line on FY 2021 financial statements.

