

How to Account for Government Assistance for Various Transactions

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Recent years have seen a notable shift in government assistance programs, with initiatives like Paycheck Protection Program (PPP) Loans, Employee Retention Tax Credits (ERTC), and grants for environmental upgrades like electric vehicle (EV) parking. These programs have expanded the relevance of government assistance beyond the traditional non-profit sector, significantly impacting for-profit entities as well.

1. **PPP Loans:** Introduced as part of the U.S. government's response to the COVID-19 pandemic, these loans were designed to help businesses keep their workforce employed during the crisis. The program was especially significant for small and medium-sized businesses.
2. **ERTC:** These are refundable tax credits for employers, meant to encourage them to keep employees on their payroll during the pandemic. It became a crucial financial aid for various businesses, including those who hadn't previously relied on government support.
3. **Grants for EV Parking and Environmental Initiatives:** There is a growing trend in government grants supporting environmental initiatives, such as installing EV charging stations. These grants are not limited to non-profit organizations and are often available to for-profit businesses, particularly those in sectors like hospitality, retail, or real estate, where such facilities can enhance customer experience and align with sustainability goals.

These developments signify a broader scope of government assistance, reaching a wider range of businesses than ever before. This shift also underscores the evolving role of government in supporting the business ecosystem, especially in times of economic challenges or during efforts to promote sustainable practices.

Accounting For Government Assistance

In the United States, generally accepted accounting principles (GAAP) do not give explicit guidance on how for-profit organizations should account for government assistance funding. In the absence of direct guidance organizations generally must choose between using the GAAP guidance for nonprofit entities in accounting standards codification (ASC) 958-605 or the guidance in international accounting standards (IAS) 20. The distinctions can be quite meaningful, especially when considering revenue recognition and other items. Here is a breakdown of the key differences and considerations:

ASC 958-605 vs. IAS 20: Accounting for Government Assistance

1. **Recognition and Presentation of Assistance:**
 - **ASC 958-605:** Revenue recognition occurs when the conditions have been substantially met. Companies typically show government grants as deferred income or establish a contra-asset account until recognition is met. Grant income is presented on a gross basis either in revenue or other income.
 - **IAS 20:** Government grants should be recognized when there is reasonable assurance that the entity will comply with the conditions attached to them and the grants will be received. Grants

related to income are often presented as deducted against the related expense or separately or under a general heading such as "Other Income".

2. Treatment of Government Loans:

- **ASC 958-605:** Loans from government at below-market rates of interest are measured based on their fair value. The difference between the fair value and the received amount is treated as a government grant.
- **IAS 20:** Provides specific guidance on how to measure the benefit of a below-market rate of interest.

3. Expense-Related Grants:

- **ASC 958-605:** No specific guidance with has led to diverse practices. Some entities record the grant as deferred income, others adjust related expenses.
- **IAS 20:** Grants are recognized in profit or loss over the periods necessary to match them with the related costs.

Policy Decisions and Impact on Revenue Recognition

- **Consistency:** Entities must consistently apply their accounting policies for similar types of transactions. However, different transactions can justify different accounting treatments.
- **Revenue Recognition Timing:** The choice of policy can significantly affect when revenue from government assistance is recognized, impacting financial results and key performance indicators.
- **Disclosure:** Both ASC 958-605 and IAS 20 require extensive disclosures regarding the nature, amounts, and conditions of government grants and assistance.

Changing Policies and Different Transaction Treatments

- **Changing Policies:** Accounting policies should be changed only if the change is required by a standard or interpretation or if it results in the financial statements providing more reliable and relevant information. Frequent changes are generally discouraged.
- **Different Transaction Treatments:** Different types of government assistance (e.g., grants vs. loans) may require different accounting treatments. Entities must evaluate each assistance type based on its specific terms and conditions.

Choosing and applying the appropriate accounting policies for government assistance requires careful consideration of the standards the organization has adopted and the specific circumstances of each assistance program. The impact on revenue recognition and other financial statement items can be significant, and entities must ensure that their policies provide a true and fair view of their financial position and performance.

Tax Implications of Government Assistance

Understanding the tax implications of government assistance, especially in the context of forgivable loans, is crucial for financial planning and compliance. Here's a general overview:

1. **PPP Loans:** The PPP loans, introduced as a response to the COVID-19 pandemic, were unique in their tax treatment. The U.S. government specified that these loans, when forgiven, would not be counted as taxable income. This was a specific provision to aid businesses during the pandemic.

2. **Other Forgivable Loans:** In contrast, other forgivable loans may not receive the same treatment. Generally, when a loan is forgiven, it can be considered as income by tax authorities. This means that the forgiven amount could be taxable.
3. **Varied Tax Implications:** The tax implications can vary based on the type of loan, the purpose for which it was used, and specific legislative provisions. For instance, student loans forgiven under certain conditions (like working in public service for several years) may not be taxable.
4. **Documentation and Compliance:** It's important for individuals and businesses to keep thorough documentation about the nature of the loan, its use, and the terms of forgiveness. This information is crucial for accurate tax reporting.
5. **Consulting a Tax Professional:** Given the complexities and potential variations in tax laws, consulting with a tax professional or accountant is advisable. They can provide guidance tailored to your specific situation, including any recent changes in tax laws that might affect the treatment of forgivable loans.

Remember, tax laws and regulations can change, and they may vary by jurisdiction. Staying informed and seeking professional advice is key to ensuring compliance and making the most of government assistance programs.

Have questions or want to discuss more? Contact [our team](#) today.