

Tracking the use of your client's Paycheck Protection Program loan funds

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Note: The information contained in this article only applies to certain small businesses and other eligible organizations that have received Paycheck Protection Program (PPP) loans. For example, if a PPP loan recipient filed, or will file, a 2019 IRS Form 1040 Schedule C, other rules apply. Information is current as of May 12, 2020.

Let's explore how you can track this information directly in [QuickBooks® Online](#), so that you are better prepared when the time comes to apply for loan forgiveness.

When your loan gets funded

1. Create the PPP loan's long-term liability account

The first step is to track the PPP loan itself. In the **Chart of Accounts**, create a **Long-Term Liability** account for the PPP loan.

2. Deposit the funds

Once the money hits your client's bank account, create a Deposit in QuickBooks Online by Adding it (not Transferring it) in the Banking Feed, or going to **+New > Bank Deposit**. Assign all the fields as follows – note that this example includes ALL of the options discussed later in the Additional QuickBooks Online Features for Tracking section. You might not use or see all of these options in your company's workflow:

1. **Deposit account:** The bank account or sub-account you'll use to track the remaining balance for your client.
2. **Date:** The disbursement date from your client's lender – the first day of their 8-week period.
3. **Received from:** QuickBooks Capital, or your Lender.
4. **Account:** The PPP Loan Liability account. This tracks the total balance of the loan.
5. **Description:** Any notes you want to remember and track.
6. **Ref No:** Put the loan number here.
7. **Amount:** The amount of the loan your client received.
8. **Client/project:** If you're using Projects to track the loan, use this field.
9. **Class:** If you're using Classes to track the loan, use this field.

The screenshot shows the 'Bank Deposit' form in QuickBooks Online. The form is titled 'Bank Deposit' and has a 'Help' icon in the top right corner. The 'Account' field is set to 'BoA Checking (3456) PPP Loan' and is marked with a red circle '1'. The 'Date' field is set to '04/20/2020' and is marked with a red circle '2'. The 'AMOUNT' field is set to '\$12,000.00'. Below the form, there is a table with columns: #, RECEIVED FROM, ACCOUNT, DESCRIPTION, PAYMENT METHOD, REF NO., AMOUNT, BILLABLE, MARKUP %, TAX, CUSTOMER / PROJECT, and CLASS. The first row is marked with a green plus sign and has a red circle '3' over the RECEIVED FROM field, a red circle '4' over the ACCOUNT field, a red circle '5' over the DESCRIPTION field, a red circle '6' over the REF NO. field, a red circle '7' over the AMOUNT field, a red circle '8' over the CUSTOMER / PROJECT field, and a red circle '9' over the CLASS field. The table shows a deposit of \$12,000.00 from 'QuickBooks Capital Loan PPP' to 'PPP Loan' with description 'PPP loan', payment method 'Cash', and ref no '33049854'. The 'Total' at the bottom right is '\$12,000.00'.

During the 8-weeks after disbursement of your loan

Categorizing PPP-related expenses

Assign your PPP designations as you create Bills, Expenses, and Checks, or pull them in from the Banking Feed. Note that assigning designations to the Checking sub-account can only be done inside the transaction details – see below.

1. **Payee:** The vendor.
2. **Payment Account:** The bank sub-account you're using to track the remaining loan balance for you.
3. **Tags:** If you're using Tags to track the loan, assign the PPP tag.
4. **Category:** The Expense account.
5. **Description:** Any notes you want to track.
6. **Amount:** The amount of money your client spent.
7. **Client/Project:** If you're using Projects to track the loan, use this field.
8. **Class:** If you're using Classes to track the loan, use this field.

The screenshot shows the 'Expense' entry form in QuickBooks. The total amount is \$1,614.06. The form includes fields for Payee (Regence BC/BI), Payment account (BoFA Checking | 34563 PPP Loan), Payment date (04/27/2020), Payment method (What did you pay with?), Ref no., Location (Grand), and Tags (Client type PPP). Below the form is a table with the following data:

#	CATEGORY	DESCRIPTION	AMOUNT	BILLABLE	MARKUP %	TAX	CUSTOMER / PROJECT	CLASS
1	Payroll Expenses (Official Employee Benefits)	IntraMed DES REGENCE BL ID 09100012161017 INDN ROYALWIDE SOLUTIONS CD ID 2201594764 CDD	1,614.06				QuickBooks Capital Loan PPP Loan	PPP
2								

Identify your forgivable payroll separately

If you have been grouping Payroll Taxes into one lump expense category on a P&L for your client, you'll need to break those out by creating State and Federal Payroll Tax Expense subcategories in your client's Chart of Accounts. Depending on your payroll provider, you may need to work with their support team to add this mapping to your QuickBooks Online file.

Your employer share of federal employment taxes, such as employer-side FICA (Federal Insurance Contributions Act), are excluded from loan forgiveness and should be recorded separately.

Your client will also need to exclude:

- Individual employee cash compensation of in excess of \$100,000 per year, and
- Qualified sick and family leave wages covered by sections 7001 and 7003 of the FFCRA

If you don't want to make permanent changes to your Chart of Accounts to accommodate these restrictions, you'll need to export your transaction details to a spreadsheet to confirm you're within the 75% range, excluding monthly salaries over \$8,333.33, with a cap of \$15,385 total for each salary over \$100,000.

When you apply for loan forgiveness

Run your reports

Remember, accountants may not submit an application for loan forgiveness on behalf of their clients.

Accountants should be aware of this limitation and ensure that an authorized representative of the borrower understands his or her obligation to complete, review, and certify to the contents of any loan forgiveness application.

At the end of the 8-week period after disbursement, your client may apply for loan forgiveness.

- Create a Profit and Loss Statement for your 8-week period.
 - If you used Tagging (described below), initiate the report from inside the Tags tool, instead of the Reports Center.
 - If you used Classes (described below), click the Customize button to Filter using your PPP Loan Class.
 - If you didn't use Tagging or Classes, instead Filter the report by Distribution Account to include only your client's relevant Expense categories (Utilities, Rent or Lease, Mortgage Interest, Payroll Wages, State Taxes).
- Turn on the % of Column option to make sure your Payroll Expenses that are eligible for forgiveness are at least 75% of the total funded.
- Save the Customization for this report so you can return to it later.

Follow these same steps to run a Profit and Loss Detail Report to show a transaction list by account. Export these reports to PDF for sharing, and to an .xls file for further analysis.

Again, remember the share of certain federal payroll taxes are excluded from forgivable payroll costs, as are qualified sick and family leave wages covered by sections 7001 and 7003 of the FFCRA. Both must be omitted from your calculations. Depending on whether you chose to track your client's payroll taxes separately, you may need to drill into your Payroll Taxes Expense category, export it to Excel, and break out the payroll tax payments.

If you're subscribed to QuickBooks Payroll, another suggestion is to run a Payroll Tax and Wage Summary, export it to Excel, and exclude all Federal payments.

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PPP PROFIT AND LOSS

April 15 - June 17, 2020

	TOTAL	
	APR 15 - JUN 17, 2020	% OF COLUMN
Income		
Total Income		0.00%
GROSS PROFIT	\$0.00	0.00 %
▼ Expenses		
▼ Payroll Expenses (office)		
Designer's Wages	6,091.05	-29.65 %
Employee Benefits	1,614.06	-7.86 %
Job Labor (Gross Wages)	7,138.36	-34.75 %
Payroll (office staff)	2,100.00	-10.22 %
▼ Payroll tax expense		
State Taxes Paid	1,025.00	-4.99 %
Total Payroll tax expense	1,025.00	-4.99 %
Total Payroll Expenses (office)	17,968.47	-87.47 %
Rent	2,000.00	-9.74 %
▼ Utilities		
Electricity	175.00	-0.85 %
Telephone	400.00	-1.95 %
Total Utilities	575.00	-2.80 %
Total Expenses	\$20,543.47	-100.00 %
NET OPERATING INCOME	\$ -20,543.47	100.00 %
NET INCOME	\$ -20,543.47	100.00 %

Documentation required to apply for loan forgiveness

To apply for loan forgiveness, you will need to organize documentation, including:

1. The number of employees on the payroll.
2. Employee pay rates.
3. Payroll tax filings.
4. Payroll costs paid in the eight weeks following disbursement of the loan.
5. Mortgage interest payments in the eight weeks following disbursement of the loan and documents, showing the mortgage was in effect before Feb. 15, 2020.
6. Rent or lease payments in the eight weeks following disbursement of the loan and your client's lease agreement (which must be dated before Feb. 15, 2020).
7. Utility payments in the eight weeks following disbursement of the loan and documents, showing similar payments or service agreements dated before Feb. 15, 2020.
8. Any advance received under the CARES Act EIDL Emergency Grant program.

Note: The above list is non-exclusive, and additional documentation may be required.

Once your lender determines your eligibility for forgiveness

Update your PPP loan's long-term liability account

If your client's PPP loan is forgiven, in whole or in part, make a Journal Entry to move that amount to the appropriate Expense categories. Any expenses paid by the loan are not tax-deductible.

After that, use this account for any remaining loan payments. You may treat it like any other loan.

Additional QuickBooks Online features for tracking

While the instructions above will be helpful to demonstrate your use of the PPP loan funds when they apply for loan forgiveness, there are a number of features inside QuickBooks Online that can also help you track the original loan and your client's expenses.

You are probably using many of these in your daily workflow. The good news is that there's more than one right way – you may choose one or more of these options that you're not already using for other purposes.

Any of these tools can be used alone, or in combination:

1. Classes
2. Projects
3. Sub-accounts
4. Custom Tags (not yet widely available)

1. Classes

Classes are available in QuickBooks Online Plus and Advanced. They allow you to filter your reports for related transactions. Classes are a good choice, provided that you are not already using them for something else.

Turn on Classes in **Gear > Account and Settings > Advanced > Categories > Track Classes**. Then, go to **Gear > All Lists > Classes** and create a Class called "PPP."

Assign the "PPP" class to your client's funding Deposit. Use the "PPP" class on all your client's relevant bills, checks, and expenses for rent, mortgage interest, and utilities.

For your client's Payroll Expenses, you may be able to assign them to the "PPP" class during your payroll run. If not, bookkeepers can use the **Reclassify** tool under the Briefcase in QuickBooks Online Accountant to assign the "PPP" class.

#	ACCOUNT	DEBITS	CREDITS	DESCRIPTION	NAME	LOCATION	CLASS
1	Payroll Expenses (office) Payroll	2,100.00			QuickBooks Capital Loan-PPP Loan		PPP
2	Payroll Expenses (office) Payroll		2,100.00		QuickBooks Capital Loan-PPP Loan		Overhead
3							

When you apply for loan forgiveness at the end of the 8-week period after disbursement, run a Profit and Loss Statement for your client for the 8-week period, filtered by this "PPP" class, for a list of all of your related expenses.

2. Projects

The **Projects Center** is available in QuickBooks Online Plus and Advanced. If you're already using it in your workflow, it's easy to incorporate PPP loan tracking in your regular workflow. If you're not using [Projects](#), [take a look to determine if it's a good fit for you](#). Projects likely will not be a good fit if you only use it to track your client's PPP loan, but for some of your clients, taking this opportunity to discover the Projects Center may transform your workflow.

If you don't see Projects turned on in your left navigation bar, turn it on in **Gear > Account and Settings > Advanced > Projects**. If you have Clients with sub-jobs, they will be converted to Projects under that Client. Also, turn on **Gear > Account and Settings > Expenses > Track Expenses and Items by Client**. Next, add a new **Client** to your client's QuickBooks Online for their lender. Then, add a **Project** underneath for the PPP loan.

In every relevant Expense and Journal Entry, assign the **SBA:PPP Loan Client/Project** on the appropriate line items.

When it's time for your client to submit reports for loan forgiveness, you can open up the PPP Loan Project and click on **Project Reports**. The **Project Profitability Report** is a Profit and Loss Statement filtered for just the PPP loan "Client."

3. Sub-accounts

Some banks may require your client to open a second checking account to separate the PPP loan funds and track their depletion. Another option in QuickBooks is to create a **sub-account of your client's checking account**. Use the sub-account to track the loan proceeds deposited into checking and then spent by your client. This will allow you to track your client's spending by glancing at their Balance Sheet.

NOTE: These methods help you track depletion of loan proceeds for your clients, but they don't help you confirm that at least 75% of loan proceeds were used for eligible payroll costs, and that no more than 25% of loan proceeds were used for eligible non-payroll costs. You would have to ensure that employer-side federal payroll tax payments (which are not eligible for forgiveness) came out of your client's primary bank account, while state unemployment came out of the PPP account. Most third-party payroll providers combine these in a single transaction.

BofA Checking (3456)	 Bank	 Checking	4,969.03	4,969.03	View register ▼
PPP Loan	Bank	Cash on hand	12,000.00		View register ▼

Another drawback to sub-accounts is that your client's Banking Feed won't naturally allocate to this account. You will need to manually edit transactions created using the Banking Center, and assign it to the sub-account, instead of the actual checking account.

4. Custom tags (not yet widely available)

Tagging is a new QuickBooks Online feature in the process of being rolled out, so you may not see it in your QuickBooks Online file at this time. If you have Tagging, create a "PPP" Tag and use it in all of your PPP-related Expense transactions. At the end of the 8-week period after disbursement, go to **Gear > Tags** and run a Profit and Loss Report for your PPP Tag.

One consideration is that there's only one Tag per transaction, so if any of your client's Expenses include splits unrelated to the PPP loan, this feature won't work for them.

Special considerations for nonprofits

There may be drawbacks to the above options for your clients that are nonprofits. Before selecting a method to track your client's PPP loan, be sure to consult with them about the pros and cons of each approach, as they will need to certify to the final reports when submitting their application for loan forgiveness.

Some have suggested creating a **new expense account** called "PPP" to track applicable expenses. However, this might create larger problems for nonprofit tracking and reporting. Nonprofits need to know the "natural category" of expenses in order to manage the organization day to day.

Sub-accounts are not helpful as a stand-alone solution because of the difficulty of separating Federal and State Payroll Taxes.

While **Classes** make sense if you're not already using them for other things, nonprofits typically already use Classes to track expenses by function: Program, Admin, and Fundraising. Also, qualified payroll costs under the PPP will fall across several functions. The long-term need for a clean Statement of Functional Expense may be more important to the nonprofit than tracking the use of the PPP loan proceeds for the 8-week period after disbursement. So, consider what is most important for your nonprofit organization client.

Accountants with nonprofits as clients may be familiar with using **Projects** to track restricted grants. While PPP loan proceeds aren't income and Project reports won't be able to reflect the balance, many Projects are assigned on a line item basis, so nonprofit companies can code wages to the use of the PPP loan, while ignoring Social Security and Medicare. Since a Project is temporary by design, you are able to mark it "complete" at the end of the covered period.

Projects are an appealing option if your nonprofit client has salaries covered by other funding sources and want to be sure there is no double-dipping.

Final words

Keeping accurate records is essential for your client to receive PPP loan forgiveness. Unfortunately, there is not a single QuickBooks report that creates a summary with a running balance for purposes of helping your client be prepared to apply for PPP loan forgiveness.

The variety of tools in QuickBooks Online allows you to create a tracking workflow customized to your client's needs.

While there are several ways to approach this situation, most of them require adding additional information to both the datafile and the workflow, without actually adding value to ordinary operational tracking. It is possible that a spreadsheet may be your most straightforward solution, assuming you enter all transactions into QuickBooks Online and your books are up-to-date.