

PPP TOOLBOX

CALCULATING GROSS RECEIPTS

How should nonprofits calculate quarterly gross receipts for ERTC?

August 2021

Organizations who experience a reduction in quarterly gross receipts in 2020 or 2021 compared to the same calendar quarter in 2019 may qualify for the Employee Retention Tax Credit. In this guidance, we explain how nonprofits should calculate quarterly gross receipts. You may recognize much of this content from guidance we developed for calculating gross receipts for Second Draw PPP Loans.

What is the definition of “gross receipts”?

In [Notice 2021-20](#), the IRS explains that “gross receipts” for purposes of the employee retention tax credit for a tax-exempt organization has the same meaning as under section 6033 of the Code. This is a reference to section 6033 of the Internal Revenue Code of 1986, which has led many nonprofits scratching their heads on what this means.

While we will discuss some nuances below, simply put: it is the **total amount of revenue the organization received from all sources**. Technically, by pointing to section 6033, the SBA is specifying the revenue from all sources you would recognize as **revenue on your 990**. That would include donations, membership dues, government contracts, grants (both unrestricted and restricted), sponsorships, program services (earned) revenue, interest, and any other revenue nonprofits would include on the 990. See Appendix II for a snapshot of the 990 Part VIII Statement of Revenue.

What accounting method should nonprofits use to calculate gross receipts?

Organizations must use their own adopted accounting method - whether cash or accrual - for calculating gross receipts.

Is there any revenue *not* included in “gross receipts”?

There is some revenue nonprofits might typically track in their internal or audited financial statements that is not included in the 990 definition of revenue, mainly: (a) **donated/in-kind services and use of facilities** and (b) **net unrealized gains and losses on investments**. Donated goods *are* included in “gross receipts.”

Secondly, on the 990, as organizations calculate Total Revenue, the calculation subtracts certain **expenses** tied to raising that revenue, such as costs of goods sold or expenses from fundraising events. When calculating gross receipts for purposes of determining eligibility for ERTC, nonprofits will *not* back out those expenses.

How should forgiven PPP loans be treated?

While the amount of a forgiven PPP loan should be included in an organization’s annual gross receipts calculation and therefore shown on the corresponding 990, the IRS has created a **safe harbor** (detailed in [Revenue Procedure 2021-33](#)) allowing organizations to exclude the forgiveness amount of a PPP loan for purposes of determining eligibility to claim the Employee Retention Credit as

This information is provided for general informational and educational purposes only and does not constitute legal, accounting or financial advice. Please note guidance is changing regularly. We encourage you to check with the SBA and your lender for updated guidance, check www.fmaonline.net/PPPToolbox for updated materials and consult your legal and accounting professionals, as needed.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Updated: August 2021

Calculating Quarterly Gross Receipts for ERTC

Gross Receipts =
Total Revenue from All Sources
- Any Revenue Excluded on the 990
e.g., Donated Services and Unrealized Gains and Losses on Investments
- Forgiven PPP Loan (if using Safe Harbor)

long as organizations are consistent in applying the safe harbor. Being consistent means that an organization must exclude the forgiveness amount for each calendar quarter that is relevant to determining eligibility and must apply the safe harbor to all employers treated as a single employer under the aggregation rules.

In addition to forgiven PPP loan amounts, the safe harbor is applicable to Shuttered Venue Operators grants and Restaurant Revitalization grants as well. The IRS makes no mention of the EIDL Advance Grant, so our recommendation is to include this amount in your quarterly gross receipts calculations.

How is restricted and conditional funding treated?

Remember that, for GAAP accrual purposes, restricted income is recognized when received or promised. It is appropriate and necessary to recognize the full amount of restricted grants, including the full amount of multi-year grants, in the quarter they are pledged, even though the income will be “released from restriction” in the future. This is required even when those contributions will fund expenses over a future period of time. Often times, this will affect the comparability of gross receipts from period to period (the revenue is not spread evenly, like the expenses perhaps might be). The “gross receipts” rules for the Employee Retention Tax Credit do not impose any special considerations based on this situation.

Finally, keep in mind that for nonprofits that follow accrual-based GAAP accounting standards, **conditional contracts and grants**, typical of government and some foundation funding, are **not included** in gross receipts until the conditions are satisfied. Conditional revenue should not be showing up in your books to begin with, but we know this is an area that can cause confusion.

If you are not sure whether funding is restricted or conditional, we recommend consulting your auditor, accountant and/or 990 preparer regarding how 990-related rules apply to this funding.

What if a nonprofit doesn't use a calendar year for its financials?

Showing data by calendar quarters (January - March; April - June, etc.) is required even if you operate on a different fiscal year.

Calculating Quarterly Gross Receipts for ERTC

How should nonprofits go about calculating their gross receipts?

1. In your accounting software, start by reviewing the **Statement of Activities** (aka Income Statement) **by quarter** so you can analyze your revenue. If your software allows, run a report that compares quarters in 2020 or 2021 vs. the same quarters in 2019 (e.g., Q1 2020 vs. Q1 2019). Otherwise, run separate reports by quarter or calendar year. For QuickBooks Online users, see screenshot on page 4 for the report inputs to make this easy. *Tip: **Make sure all of your revenue is properly booked before running the calculation; if you have not finished booking end of 2020 data, make sure to only analyze data that is fully booked.***
2. Carefully review to see if you need to make any modifications to align with the “gross receipts” definition from the 990.
 - a. Ensure the revenue is not netting any expenses associated with raising that revenue (such as costs of goods sold or fundraising event expenses). You should not net any other expenses either, e.g., costs of operating your program.
 - b. Next, remove revenue that wouldn’t be included in the 990 (primarily donated/in-kind services and use of facilities and net unrealized gains and losses on investments).
 - c. For any quarter in which you might have revenue from a forgiven PPP loan or EIDL grant advance, you should perform the calculation including the funds for now. If you still reach the reduction threshold, you can proceed. If you don’t, you should either wait for the IRS to clarify their process or identify if you have any other basis under which you can qualify for the ERTC for that quarter.

You might be able to build a custom report in your accounting software to remove these revenue accounts from the report *or* export to Excel and manually review and recalculate.

Calculating Quarterly Gross Receipts for ERTC

APPENDIX I: GETTING YOUR REVENUE DATA OUT OF QUICKBOOKS ONLINE

Under Reports, run a Statement of Activity report with these inputs. For Compare another period, select Previous Year (PY) % change. If you know you have revenue booked that you will need to back out, such as donated services or unrealized gains/losses on investments, you can use the Customize report feature to filter out these accounts.

Statement of Activity Report

[Back to report list](#)
Report period

Last Year ▼ 01/01/2020 to 12/31/2020

Display columns by: Quarters ▼ Show non-zero or active only: Active rows/active columns ▼ Compare another period: Previous year ▼ Accounting method: Cash Accrual

[Run report](#)

That will get you a report that allows you to compare revenue by quarter and see if there was a quarter that decreased by 25% or more:

Statement of Activity
January - December 2020

JAN - MAR, 2020			APR - JUN, 2020			JUL - SEP, 2020			OCT - DEC, 2020		
CURRENT	JAN - MAR, 2019 (PY)	% CHANGE	CURRENT	APR - JUN, 2019 (PY)	% CHANGE	CURRENT	JUL - SEP, 2019 (PY)	% CHANGE	CURRENT	OCT - DEC, 2019 (PY)	% CHANGE

Calculating Quarterly Gross Receipts for ERTC

APPENDIX II: REVENUE CATEGORIES FROM THE 990

Include all revenue except forgiven PPP loans (if using the Safe Harbor)

Do not back out any expenses related to raising this revenue.

Include all revenue.

Do not back out any expenses related to raising this revenue that would be included in 6b, 7b, 8b, 9b, or 10b.

Consult with your CPA or 990 preparer on if there is any Miscellaneous Revenue typically included for your organizations.

Part VIII Statement of Revenue				(A)	R	
Check if Schedule O contains a response or note to any line in this Part				Total revenue	f	
Contributions, Gifts, Grants and Other Similar Amounts	1a	Federated campaigns	1a			
	b	Membership dues	1b			
	c	Fundraising events	1c			
	d	Related organizations	1d			
	e	Government grants (contributions)	1e			
	f	All other contributions, gifts, grants, and similar amounts not included above	1f			
	g	Noncash contributions included in lines 1a-1f	1g	\$		
	h	Total. Add lines 1a-1f				
Program Service Revenue	2a			Business Code		
	b					
	c					
	d					
	e					
	f	All other program service revenue				
	g	Total. Add lines 2a-2f				
Other Revenue	3	Investment income (including dividends, interest, and other similar amounts)				
	4	Income from investment of tax-exempt bond proceeds				
	5	Royalties				
	6a	Gross rents	(i) Real	(ii) Personal		
			6a			
			6b			
	6c	Less: rental expenses				
	6c	Rental income or (loss)				
	d	Net rental income or (loss)				
	7a	Gross amount from sales of assets other than inventory	(i) Securities	(ii) Other		
			7a			
			7b			
	7b	Less: cost or other basis and sales expenses				
	7c	Gain or (loss)				
7c	Net gain or (loss)					
8a	Gross income from fundraising events (not including \$ of contributions reported on line 1c). See Part IV, line 18	8a				
8b	Less: direct expenses	8b				
	Net income or (loss) from fundraising events					
9a	Gross income from gaming activities. See Part IV, line 19	9a				
9b	Less: direct expenses	9b				
	Net income or (loss) from gaming activities					
10a	Gross sales of inventory, less returns and allowances	10a				
10b	Less: cost of goods sold	10b				
	Net income or (loss) from sales of inventory					
Miscellaneous Revenue	11a			Business Code		
	b					
	c					
	d	All other revenue				
	e	Total. Add lines 11a-11d				
12	Total revenue. See instructions					

This information is provided for general informational and educational purposes only and does not constitute legal, accounting or financial advice. Please note guidance is changing regularly. We encourage you to check with the SBA and your lender for updated guidance, check our PPP toolkit for updated materials and consult your legal and accounting professionals, as needed.