

Paycheck Protection Program (PPP) Overview



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On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. A key component of the law is the Paycheck Protection Program (PPP), which is designed to provide financial support to small businesses and incentivize them to retain or rehire their employees. The PPP is an expansion of the Small Business Administration (SBA) 7(a) loan program, but there are several key enhancements to PPP loans that make them more attractive to small businesses, including the ability to have some, or all, of the loan forgiven.

Highlights of PPP Loans

- Ability to Have Some, or All, of the Loan Forgiven
- Expanded Eligibility: No Collateral, No "Credit Elsewhere" Requirement, No Personal Guarantee
- No Fees: Application and Prepayment Fees Are Waived
- Money Must Be Used for Qualified Expenses Within 8 Weeks of Loan Origination
- Low 1% Fixed Interest Rate
- Payments Deferred for 6 Months (Interest Will Accrue)
- 2-Year Maturity

Eligibility Requirements

- Employers, including for-profit businesses and non-profit organizations, with 500 or fewer employees, which were in operation on Feb. 15, 2020
- Businesses in the Accommodation and Food Services sectors with no more than 500 employees per location and assigned a North American Industry Classification System (NAICS) code beginning with 72, which were in operation on Feb. 15, 2020
- Sole proprietors, independent contractors and other self-employed individuals if you were in operation on Feb. 15, 2020

PPP Loan Amounts

- 2.5x average monthly payroll-related costs from 2019 (or alternative time periods for seasonal or new businesses)
- Maximum loan amount is \$10 million

Payroll-Related Costs Included in Calculation

- Salaries, wages, commissions, tips or similar compensation up to a maximum of \$100,000 per individual employee (excluding payments made to employees whose principal residence is outside the U.S.)
- Employer-paid vacation, parental, family, medical or sick leave (excluding payments credited under the Families First Coronavirus Response Act (FFCRA))
- Dismissal or separation allowances
- Employer payments for group health care coverage, including insurance premiums, and retirement benefits
- State and local payroll taxes paid by the employer, but not federal employment taxes imposed or withheld between Feb. 15, 2020, and June 30, 2020

Disclaimer: This document is for general informational purposes only and not intended to provide guidance, advice or endorsement. The parameters of the program outlined here are subject to change without notice. Please contact your CPA for tailored guidance and tax-related questions.



Approved Uses for PPP Loans

- Payroll costs, *excluding* the following:
 - Compensation of more than \$100,000 per employee on an annualized basis
 - Any compensation of an employee whose principal residence is outside of the U.S.
 - Federal employment taxes, including FICA imposed or withheld between Feb. 15, 2020, and June 30, 2020
 - Sick and family leave wages for which credit is allowed under the FFCRA
- Costs related to the continuation of group health care benefits during periods of paid sick, medical or family leave, and insurance premiums
- Mortgage interest payments (but not mortgage prepayments or principal payments)
- Rent payments on leases dated before Feb. 15, 2020
- Utility payments, including electricity, gas, water, transportation, telephone and internet for services that began before Feb. 15, 2020
- Interest payments on any other debt obligations that were incurred before Feb. 15, 2020
- Refinancing an SBA EIDL loan made between Jan. 31, 2020, and April 3, 2020. *(Note: Proceeds from any advance up to \$10,000 on an EIDL loan will be deducted from the PPP loan forgiveness amount.)*

Criteria for Loan Forgiveness

- PPP loans are designed to encourage employers to retain employees or bring employees back on payroll once employers receive the loan, and to encourage employers to maintain employee wages.
- You have until June 30, 2020, to restore your employment and salary levels for any changes made between Feb. 15, 2020, and April 26, 2020. *(Note: independent contractors do not count as employees.)*
- Your loan forgiveness will be reduced if you decrease your full-time employee headcount.
- Your loan forgiveness will be reduced if you decrease salaries and wages by more than 25% for any employee who made less than \$100,000 annualized in 2019.
- Your loan forgiveness will be reduced if you use more than 25% of the loan amount for non-payroll costs.
- Only costs incurred and payments made over the 8-week period following the date of the PPP loan are eligible for forgiveness.

Key Dates

April 3, 2020

Applications start being accepted for small businesses and sole proprietorships

April 10, 2020

Applications start being accepted for independent contractors and self-employed individuals

June 30, 2020

Application period ends; date that headcount and salary levels must be restored for forgiveness calculation

More Information

Email: businessbanking@ridgewoodbank.com

Call: (844) 772-4722

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