BLOGS

COVID-19 Pandemic

CARES Act Increases Debt Limit under Small Business Reorganization Act

A recent change related to the Coronavirus Aid, Relief, and Economic Security (CARES) Act may increase the number of small business bankruptcy filings in coming months. The Small Business Reorganization Act (SBRA) went into effect on February 19, 2020, aiming to streamline small business reorganizations by modifying or eliminating certain traditional Chapter 11 requirements and creating an easier path for small business debtors to confirm plans of reorganization. Under the SBRA, a small business debtor, whether an individual or legal entity, is the only party permitted to file a plan of reorganization, but must do so within ninety (90) days of the petition date.

Under the original provisions of the SBRA, a small business debtor filing under the SBRA could not have more than $2,725,625.00 in secured and unsecured debt as of the petition date. However, the CARES Act recently raised this debt limit to $7.5 million dollars. This higher debt limit will remain in effect through March 27, 2021 (unless extended by Congress). The expansion of the debt limit by the CARES Act creates the opportunity for many more businesses to be eligible for protection under the SBRA. Given recent economic disruptions related to the COVID-19 pandemic, it seems reasonable to expect this increase in eligibility will lead to a wave of small business bankruptcies.

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