

CLIENT ALERT

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Increased Debt Limit for Small Business Reorganizations Approved

June 27, 2022

As noted in [a previous Alert, on March 29, 2020](#), the President signed the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), a sweeping economic relief package designed to alleviate the economic impact of the COVID-19 pandemic. A key provision for bankruptcy practitioners was the increase in the debt limit for Small Business Reorganizations under Subchapter V of Chapter 11 from \$2,750,625 to \$7,500,000. That provision, however, sunsetted in March 2022, and efforts to revive it at the time failed.

The good news is that Congress has now passed, and the President has signed, the Bankruptcy Threshold Adjustment and Technical Corrections Act (the “Adjustment Act”), which restores the \$7,500,000 debt limit for Subchapter V cases. It also amends sections 104(a) and (b) of the Bankruptcy Code so that the debt limit will periodically be adjusted for inflation as provided in those sections. Under the Adjustment Act, the raised debt limit (as well as certain other provisions) are made retroactive to any case that was commenced on or after March 27, 2020 and is pending on June 21, 2022, the date of enactment of the Adjustment Act.

The bad news is that the increased debt limit again sunsets two years from enactment (i.e., on June

21, 2024). Hopefully, the increased debt limit will be not only be extended again, but made permanent – and at the \$10 million level that many have suggested.

Referenced above is our previous Alert, which describes the beneficial changes for persons and entities that are eligible for relief under Subchapter V under the increased debt limit provided for in the Adjustment Act as compared to a traditional Chapter 11.

Should you wish to discuss whether Subchapter V could be a useful tool for your business, please contact your primary GEABP attorney, or either of the attorneys listed below:

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