

ALERT

Congress Changes Small Business Size Status Calculation from Three to Five Years, Allowing More Runway for Growth

December 14, 2018

WHAT: The House of Representatives and the Senate have passed the Small Business Runway Extension Act of 2018, which will amend the Small Business Act to require the Small Business Administration (SBA) to calculate a concern's average annual receipts for the past five years to determine its size status, instead of three years.

WHEN: The Senate passed the bill on December 6, 2018, which had already been passed by the House earlier this year. The change will be effective upon the President's signature. SBA will likely make the change to its corresponding regulation at 13 C.F.R. § 121.104(c) shortly thereafter.

WHAT DOES IT MEAN FOR INDUSTRY: According to the House Committee on Small Business, the purpose of the legislation is to "allow small businesses at every level more time to grow and develop their competitiveness and infrastructure, before entering the open marketplace." Many small business contractors experience sudden and rapid growth, leading to the "Valley of Death" where they are no longer small but still lack the infrastructure and experience to compete in the full and open marketplace against large, well-established companies. Extending the size calculation to five years will enable small businesses to pursue larger opportunities for growth with less fear that those opportunities may ultimately harm their business' future. The change does not impact the calculation of size status based on the number of employees, which remains the preceding twelve-month average.

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