

Sun Sets on Increased Subchapter V Debt Limit for Now

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A key bankruptcy-related response to the pandemic has ended as the increased debt limits under subchapter V of chapter 11, passed by Congress in the CARES Act, have expired. In an effort to provide bankruptcy relief and access to subchapter V of chapter 11 of the Bankruptcy Code to a greater number of small businesses, Congress raised the debt limit for subchapter V eligibility from the original \$2,725,625 to \$7.5 million via the CARES Act, passed in March of 2020. Extended once before, the increased debt limit provision had been due to sunset on March 27, 2022, absent action to extend the increase by Congress. On March 14, Sen. Chuck Grassley (R-Iowa) introduced the Bankruptcy Threshold Adjustment and Technical Corrections Act, aiming to make the increase in the subchapter V debt limit permanent with wide bipartisan support.

However, operating on a tight timeline and with other issues to handle in the Congress, the increase was not made permanent prior to the deadline. The debt limit under subchapter V reverted to the original \$2,725,625 limit imposed by the Small Business Reorganization Act of 2019, effective March 27.

While the debt limit has reverted to its original, lower threshold, it is likely that the effort to permanently raise the debt limit will continue given bipartisan support for the increase. Creditors should expect to see the increase made permanent and the subchapter V debt threshold rise to \$7.5 million for good in the near future.

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