U.S. Small Business Administration Publishes Final Rule Implementing “Small Business Runway Extension Act” Providing New Method of Size Calculation for Businesses Using Revenue Based Size Standards

[For earlier information see Small Business Notes for May 2019 and July 2019]

On December 5, 2019, the U.S. Small Business Administration published its final rule implementing the Small Business Runway Extension Act (P.L. 115-324) making substantial changes to the way in which small businesses, especially government contracting small businesses, compute their status as “small.”

[The rule appears at 84 Fed. Reg. 234 at 66561 et seq.; December 05, 2019.]

The new rule deals with those businesses which use revenue based size standards (as opposed to those using number-of-employees standards). Before the new rule, the Small Business Administration, in making its determination of size status for government contracting, looked at the average annual revenue of a business over the past three years. The new rule expands the counting period to average annual revenue over the past five years. This is intended to result in more business having or retaining “small” status since they can take a longer period to spread their revenues.

The new rule takes effect January 6, 2020 and has a transition period from that date through January 6, 2022, when a business may calculate its revenues using EITHER the three year or five year average. Businesses which have been in business for less than five years calculate revenues by dividing receipts by the number of weeks the business has been operational and then multiplying that number by 52.
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