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DID YOU KNOW?

SBA Redefines a "Small Business" in Many Industries

Sweeping overhaul has wide implications for businesses throughout the nation

Overview

The US Small Business Administration (SBA) has released a Notice of Proposed Rule (NPR) proposing a sweeping overhaul of its small-business size standards that could dramatically expand the number and size of companies eligible for federal small-business contracts and SBA loan programs.

The proposal would:

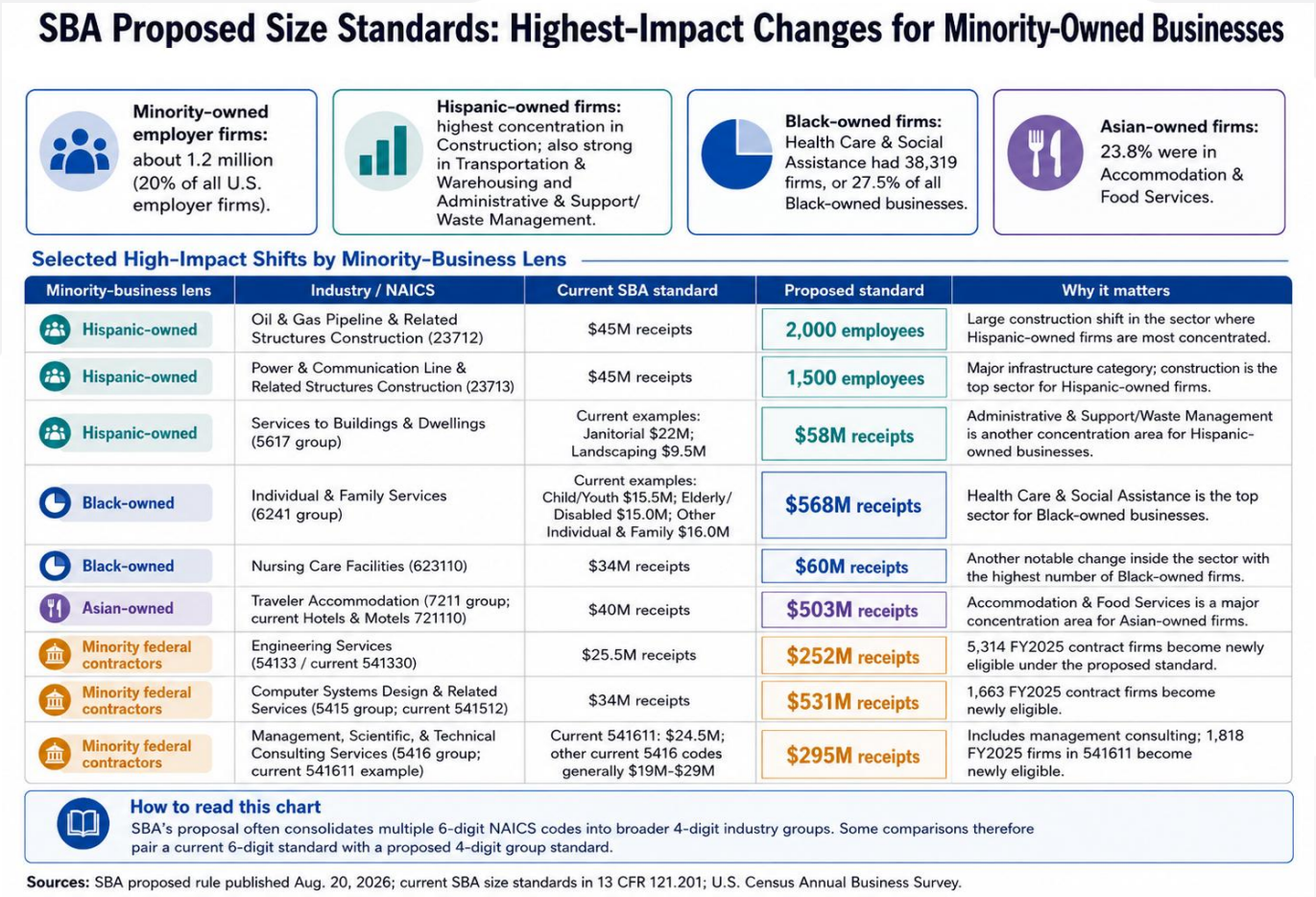
- Replace revenue-based standards with employee-based standards in several industries. Construction firms that currently must remain below approximately $19 million to $45 million in annual revenue could qualify as small with as many as 550 to 2,000 employees, depending on the industry.
- Calculate size standards at broader four- or five-digit NAICS levels, reducing the number of separate standards and eliminating industry-specific exceptions.
- Substantially increase many revenue-based limits. For example, the threshold for management consulting would rise from $24.5 million to $295 million, while custom computer programming would increase from $34 million to $531 million.

SBA argues that the changes would strengthen the industrial base, increase participation in SBA programs, and help agencies achieve their small-business contracting goals. The proposal would also address the "mid-tier cliff" by allowing companies that have outgrown current standards—but remain too small to compete effectively against major contractors—to regain small-business status.

The proposed size standard increases the total number of eligible small businesses from 6,344,967 firms to 6,459,508 firms and the SBA estimates that 114,541 small firms that outgrew the prior standards would regain access to small business contracting and will become eligible to compete in the federal market. Further, 37,002 firms with more than 105,655 contracts in FY 2025 (accounting for roughly $71 billion dollars in government contracts) will become small businesses under the proposed size standards.

The proposed standards would allow larger small businesses to remain eligible for set-aside opportunities longer, giving them more room to scale revenue, add employees, invest in capabilities, and compete for larger and more complex federal contracts without immediately "graduating" into unrestricted competition. They could also create stronger incentives for strategic growth through mergers, acquisitions, and joint ventures by giving firms greater flexibility to build scale and capacity while still retaining access to small-business contracting programs.

The expanded size standards could also allow more growing firms to remain eligible for SBA-backed financing, including 7(a) and 504 loans, giving them greater access to capital for acquisitions, equipment, facilities, and continued expansion.



However, the changes could create significant disadvantages for genuinely small firms. A $20 million consulting company, for example, could be forced to compete for the same set-aside contracts as companies approaching $300 million in annual revenue. These larger businesses would generally have substantially greater staffing, capital, past performance, and proposal resources. The changes could create greater competition for SBA-backed lending as larger firms could remain eligible for 7(a) and 504 financing and compete for the same resources. If demand grows faster than SBA guarantee authority or participating lenders' capacity, the result could be less credit availability, longer processing times, or tighter underwriting for the smallest firms, which often have fewer conventional financing alternatives.

The proposal could also reshape the federal contracting market by:

- Reducing demand for mentor-protégé joint ventures because more potential mentors may independently qualify as small.
- Making it harder for newer firms to attract experienced mentors.
- Encouraging mergers and acquisitions by giving contractors considerably more room to grow while retaining small-business status.
- Increasing the value of small-business contractors as acquisition targets because more buyers may be able to preserve the acquired company's set-aside eligibility and contracts.

Conclusion

The SBA's size standard proposal would largely redefine "small business" to include many companies currently considered mid-tier. It may solve the mid-tier cliff and promote consolidation and growth, but it could also crowd truly small firms out of the set-aside marketplace. **Deadline for providing comment on the proposed rule is September 21, 2026.**