

# Bankruptcy Implications of the COVID-19 Relief Legislation

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Congress passed the Coronavirus Aid, Relief and Economic Security Act (CARES Act), providing a two trillion dollar economic stimulus for U.S. industries and citizens affected by the COVID-19 coronavirus. The legislation is expected to be signed into law shortly. Included in this legislation are provisions to provide financially distressed consumers and small businesses greater access to bankruptcy relief.

On the commercial side, the relief afforded by CARES requires some context. The [Small Business Reorganization Act of 2019](#) (SBRA) became effective on February 19, 2020. Its primary purpose was to provide a cost effective and streamlined process for small businesses or individuals with commercial debt that exceeded Chapter 13 limits to access Chapter 11 of the Bankruptcy Code. As originally enacted, the eligibility threshold under SBRA for debtors was \$2,725,625 in debt, including secured and unsecured debt. If a debtor had debt beyond this threshold, the only option was a traditional Chapter 11. The CARES Act increases the eligibility threshold for debtors filing under SBRA to \$7,500,000, opening this option to significantly more potential debtors.

On the consumer side, the definition of “income” in the Bankruptcy Code for chapters 7 and 13 was amended to exclude coronavirus-related payments from the federal government from being treated as “income” for purposes of filing bankruptcy. Further, the calculation of disposable income for purposes of confirming a chapter 13 plan was clarified to make clear that these figures do not include coronavirus-related payments. Additionally, individuals and families currently in a chapter 13 bankruptcy are authorized to seek payment plan modifications if they are experiencing a material financial hardship due to the coronavirus pandemic, with the possibility of extending payments for up to seven years after their initial plan payment was due.

Per CARES, the provisions referenced above would sunset within a year of the legislation being enacted, but would provide options for both small businesses and consumers impacted by the pandemic in the near term.

If you have questions, please contact your Graydon attorney and they can put you in touch with the right person. You can also visit our [Graydon COVID-19 Business Resource Page](#).