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SBA Wants to Rewrite Who Counts as "Small." You Have Until September 21 to Weigh In.

On August 20, the Small Business Administration (SBA) published two companion proposed rules that would produce the largest restructuring of federal small business size standards in decades. The comment window is short – it closes September 21, 2026 – and most contractors have not yet worked out which side of the change they land on.

What SBA is Proposing

The first rule is a revised methodology for calculating size standards[1] and the second implements it[2]. Together they:

- **Collapse the Size Standards Table.** Roughly 995 standards across 978 six-digit North American Industry Classification System (NAICS) industries, plus 18 subindustry exceptions, would become 338 standards set at the four- and five-digit level – 276 at four digits and 62 at five. All 18 federal contracting exceptions would be eliminated, including the Information Technology Value Added Reseller (ITVAR) exception that a lot of resellers have built around, discussed further below.
- **Raise Thresholds, Sometimes Dramatically.** For example, engineering services (NAICS 541330) would move from $25.5 million to $252 million in average annual receipts. Computer systems design and related services (NAICS 5415) would move from $34 million to $531 million. SBA also proposes not to reduce any existing standard, even in the 45 industries where its own analytics would support a decrease.
- **Default to Employee-Based Measurement.** Where SBA has discretion, industries would move from receipts to headcount. The SBA's stated reason is to stop firms

from oscillating between small and other-than-small because of revenue volatility, inflation, and productivity growth.
- **Remove the Ceiling and Set a Floor.** The explicit maximums come out. New minimums go in at 500 employees or $30.6 million in receipts, so every industry gets at least that. Receipts-based standards would also be adjusted for productivity growth on top of inflation, which is a first.

SBA estimates the changes would newly classify about 114,541 businesses as small. Of those, roughly 37,002 firms held FY2025 federal contracts, approximately 105,655 contracts worth more than $71 billion.

The 18 Exceptions, and Why Removing Them Matters

Easy to miss in the consolidation is the elimination of every "exception" in SBA's size standards table – 18 subindustry carve-outs, defined in the footnotes to 13 C.F.R. § 121.201, each setting a different standard for a narrow slice of work inside a broader NAICS code.

They exist because some codes contain work that looks nothing like the rest of the code. Dredging under NAICS 237990 carries its own standard plus a requirement that the firm perform at least 40 percent of the volume dredged with its own equipment or that of another small dredging concern. Others cover environmental remediation services under 562910; forest fire suppression and fuels management under 115310; military and aerospace equipment, weapons, and marine engineering and naval architecture under 541330; aircraft engines and guided missiles under the research and development codes; and base maintenance and Job Corps center operation under 561210.

The best known is ITVAR. Footnote 18 defines it as a firm delivering a total IT solution: multi-vendor hardware and software bundled with significant value-added services such as configuration consulting and design, systems integration, installation, customization, training, product technical support, and end-user support. It currently sits under NAICS 541519 with a 150-employee standard, and would move to $531 million in average annual receipts.

SBA's position is that the new industry-group standards exceed the current exception levels in all but one industry, so removing the carve-outs costs nobody eligibility, and it is asking for comment on whether any remain necessary.

Why This Cuts Both Ways

If you are comfortably under today's thresholds, your own status is not at risk. What changes is who you compete against.

An incumbent small business that has been winning set-asides against firms of similar size may soon be bidding against companies several times larger, with deeper past performance and far more sophisticated proposal shops. Margins compress and win rates could fall. The firms that were the biggest fish in the set-aside pond have the most to lose here.

On the other side, the receipts-to-employees shift addresses a real and long-standing problem. Under the current system, winning a large contract can push a firm's five-year receipts average over the line and cost it the eligibility that made the win possible. Measure by headcount instead, and revenue growth from performance stops triggering that outcome. Firms that graduated out on receipts while holding headcount steady may find themselves eligible again.

The second-order effects matter too. Higher thresholds give small-business joint ventures far more room before affiliation becomes a problem, open space for small-to-small acquisitions that previously would have disqualified both parties, and materially expand the addressable market for SBIC-backed investment in government services.

What a Useful Comment Looks Like

SBA must respond to substantive comments. It is not obligated to be moved by volume.

Generic support or opposition accomplishes nothing. What carries weight is NAICS-specific analysis: your own numbers, showing what the proposed standard does to a defined firm profile in a defined market. If consolidation to the four-digit level lumps your niche in with a materially different industry, say so and show the dispersion. If a proposed threshold would put you head-to-head with firms ten times your size, quantify it. Recommended modifications with supporting rationale beat objections without them.

Before the Window Closes

Run your NAICS codes against the proposed table (web citations below) and find out where you stand. Model the competitive field, not just your own status. Check whether your industry converts from receipts to employees, because that changes hiring and subcontracting calculus. If you rely on one of the 18 exceptions, assume it is going away.

One caution: this is a proposal. Current standards remain in effect until a final rule takes effect, and nobody should be changing SAM representations based on it. But SBA has signaled clear intent to proceed, and the planning should start now,

Where to Find the Proposed Table

The full table of proposed size standards is set out in the proposed rule itself.

One practical note on using it: because standards now sit at the four- and five-digit level, your six-digit code may not appear as its own line. Roll up to the parent – 541512 and 541519 both fall under 5415 and take that group's standard. Where SBA has set a five-digit standard, it controls over the four-digit group above it.

- Proposed Rule, Small Business Size Standards[3]
- Proposed Rule Official PDF (GovInfo)
- Revised Size Standards Methodology[4]
- Methodology Official PDF (GovInfo)

Comments go in at regulations.gov under Docket No. SBA-2026-0199 (standards) and Docket No. SBA-2026-0265 (methodology). Both close September 21, 2026.

This blog was drafted by Ray Jones, a government contracts and M&A attorney in the Spencer Fane Washington, D.C. office. For more information, visit www.spencerfane.com.

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1
91 Fed. Reg. 54096, Docket No. SBA-2026-0265

2
91 Fed. Reg. 53741, RIN 3245-AI67, Docket No. SBA-2026-0199

3
91 Fed. Reg. 53741

4
91 Fed. Reg. 54096