

Bankruptcy Provisions in the CARES Act

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There are some key provisions in the Coronavirus Aid, Relief, and Economic Security (CARES) Act that provide additional relief to those businesses and consumers who may be seeking to file a bankruptcy petition. The CARES Act, which became public law on March 27, 2020, was passed to deliver emergency assistance to businesses, families, and individuals affected by the COVID-19 pandemic.

Section 1113 of the CARES Act lays out all the changes in bankruptcy law, including:

- The Small Business Reorganization Act (SBRA), which recently became effective in February 2020, enacted a subchapter under Chapter 11 that allows businesses with debts under a certain amount to more quickly, and less expensively, reorganize. Under the SBRA, a business's debts must be \$2,725,625 in order to file a case under subchapter 5. The debt limit increases to \$7.5 million under section 1113 of the CARES Act.
 - This change applies only to bankruptcy cases filed after the CARES Act became effective and will only be applicable for one year. The debt limit will decrease back to \$2,725,625 after one year passes.
- The CARES Act amends the definition of "income" under section 101(10A)(B)(ii) to exclude coronavirus-related payments from the federal government. The act also excludes the coronavirus-related payments from "disposable income" under section 1325(b)(2).
- The CARES Act allows a debtor to request modification of a plan under section 1329(d)(1)(A) if the debtor is experiencing or has experienced a material financial hardship due, directly or indirectly, to the COVID-19 pandemic. Further, debtors may extend plan payments under the plan for up to seven years after the initial plan payment was due. These changes apply to any case for which a plan has been confirmed before the enactment of the CARES Act.

All the provisions altered above will be amended to their original form following one year after the enactment of the CARES Act.

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