

SBA's Proposed Size Standards Overhaul Could Reshape Government Contractor M&A

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On August 20, 2026, the U.S. Small Business Administration published two related proposals that could substantially change which companies qualify as small businesses for federal contracting purposes. One proposal revises the methodology SBA uses to establish size standards. The second applies that methodology across the economy and proposes new standards for 338 industry groups and industries. Comments on both proposals are due November 20, 2026.

The proposals remain subject to change and would not affect contractors unless and until SBA issues a final rule. If adopted, the proposals could allow many contractors that currently exceed their applicable size standards to qualify as small, with corresponding consequences for competition and transaction planning.

What Is SBA Proposing?

SBA is proposing to simplify its size-standard system while substantially raising the ceiling for many companies to remain classified as small.

Fewer and broader size standards

SBA currently maintains size standards covering 978 six-digit North American Industry Classification System, or NAICS, industries. The proposal would replace that system with 338 standards.

A shift toward employee-based standards and an increase in many revenue-based standards

Where SBA has discretion, the proposed rules favor measuring small business size by number of *employees* instead of *annual receipts* (annual receipts generally means revenue). In SBA's new proposed framework, the number of receipt-based standards would fall from 496 to 129, while 208 of the new standards would be employee-based.

This change could be significant for contractors in industries that currently use a five-year average of annual receipts. For those companies, winning a large contract can contribute to eventually exceeding the applicable size standard. With an employee-based standard, increased revenue alone would no longer cause the company to lose its small-business status.

The principal changes are two-fold:

- Measuring size by employees rather than annual receipts in many industries
- Increasing the thresholds for many industries that would retain receipt-based standards.

For *example*, NAICS 541613, Marketing Consulting Services has a current size standard of \$19 million that would increase to \$295 million if the proposed rule is finalized as proposed, an increase of 1453%. These are proposed, not current standards, and companies should review the applicable tables carefully because treatment varies by industry.

For industries moving from receipts to an employee-based standard, revenue growth would no longer be the principal driver of size status. Transaction diligence would instead need to focus on the combined workforce of the buyer, target, and their respective affiliates.

Taken together, SBA estimates that the changes would cause approximately 114,541 additional businesses to qualify as small. According to SBA, 37,002 of those businesses held federal contracts during fiscal year 2025, representing more than \$71 billion across approximately 105,655 contracts.

What Could the Proposals Mean for Government Contractor M&A?

SBA's proposed rules could open new transaction opportunities, but they would not eliminate the fundamental SBA affiliation and recertification issues that arise when a small-business contractor changes ownership.

More flexibility for small-business acquisitions

Under SBA's affiliation rules, a contractor generally must count the receipts, employees, or other measure of size of its domestic and foreign affiliates. Affiliation may arise when one business controls or has the power to control another, or when a third-party controls both. SBA considers ownership, management, contractual relationships, prior relationships, and the totality of the circumstances.

Under current standards, that combined calculation can quickly make a small-business target other than small. However, higher thresholds could provide additional room for one small-business contractor to acquire another, without immediately exceeding the applicable standard.

A potentially broader buyer pool for small-business sellers

Small-business set-aside contracts can be difficult to value in a sale because a change in control may cause the contractor to lose its qualifying size or socioeconomic status. Current SBA regulations generally require size and applicable program-status recertification within 30 calendar days after a merger or acquisition involving the small business that results in a change in controlling interest. The recertification applies the size standard in effect at the time of recertification corresponding to the NAICS code originally assigned to the award.

If the proposed standards become effective, a buyer that would be too large under today's threshold might qualify as small under the new threshold after taking its affiliates into account. Higher thresholds may make some targets viable for buyers that would currently cause a disqualifying size recertification. Whether that benefit exists in a particular transaction will depend on transaction specifics such as the target's assigned NAICS codes, the timing of recertification, and any separate socioeconomic-program (e.g., service-disabled veteran-owned or women-owned small business) requirements.

Changes to diligence and valuation models

Buyers should not simply assume that a higher threshold preserves the full value of a target's small-business contract portfolio. Transaction diligence should model the combined company under each relevant NAICS code, identify whether the applicable standard is based on receipts or employees, and determine when post-closing recertification will be required.

An acquisition that depends on future set-aside awards should therefore be evaluated under multiple scenarios. For example, the parties should consider whether SBA's final standards could differ from those proposed and whether the transaction could close, triggering recertification, before any new standards become effective.

Increased competition may affect projections

Higher size standards would not benefit only a particular buyer or target. The pool of larger and more experienced firms competing for small-business set-aside work could increase. Incumbent small contractors could face competitors with more robust past performance, sophisticated proposal teams, and greater financial resources.

A transaction model that assumes historical win rates will continue unchanged may be unrealistic. Buyers should assess the target's competitive position and whether it depends on small business status or differentiated capabilities, customer relationships, key personnel, and past performance.

Deal timing could become important

Because current recertification rules apply the size standard in effect at the time of recertification, the timing of a final rule, closing, and change in control could affect the outcome of a transaction.

Parties negotiating transactions during the rulemaking process may want to address this uncertainty through closing conditions, purchase-price assumptions, and representations concerning size calculations.

Practical takeaways

Contractors considering a transaction should identify their principal NAICS codes, familiarize themselves with current and proposed standards, and calculate size on a pro forma basis after including relevant affiliates.

Buyers should also consider how a larger pool of eligible competitors could affect the target's backlog, pipeline, projected win rates, and valuation.

SBA's proposals could provide meaningful room for small-business contractors to grow organically or through acquisition. Higher thresholds do not remove affiliation, recertification, socioeconomic-status, novation, or contract-specific considerations. Those issues should remain central to transaction diligence and structuring.

Comments on both proposals are due November 20, 2026, and contractors that may be affected should submit comments before the deadline.