



## What is Bankruptcy?

Bankruptcy is a process in which consumers and businesses can eliminate or repay some or all of their debts under the protection of the federal bankruptcy court.

## Types of Bankruptcy

**Chapter 7** bankruptcy can be filed by individuals (called a "consumer" Chapter 7 bankruptcy) or businesses (called a "business" Chapter 7 bankruptcy). A Chapter 7 bankruptcy typically lasts three to six months.

**Property liquidation-** In Chapter 7 bankruptcy, some of your property may be sold to pay down your debt. In return, most or all of your unsecured debts (that is, debts for which collateral has not been pledged) will be erased. You get to keep any property that is classified as exempt under the state or federal laws available to you (such as your clothes, car, and household furnishings). Many debtors who file for Chapter 7 bankruptcy are pleased to learn that all of their property is exempt.

**Secured debt-** If you owe money on a secured debt (for example, a car loan for which the car is pledged as a guarantee of payment), you have a choice of allowing the creditor to repossess the property; continuing your payments on the property under the contract (if the lender agrees); or paying the creditor a lump sum amount equal to the current replacement value of the property. Some types of secured debts can be eliminated in Chapter 7 bankruptcy.

**Eligibility for Chapter 7-** Not everyone can file for Chapter 7 bankruptcy. For example, if your disposable income is sufficient to fund a Chapter 13 repayment plan -- after subtracting certain allowed expenses and monthly payments for certain debts -- you won't be allowed to use Chapter 7 bankruptcy.

**Chapter 13** bankruptcy is also known as "wage earner" bankruptcy because, in order to file for Chapter 13, you must have a reliable source of income that you can use to repay some portion of your debt.

**Repayment-** When you file for Chapter 13 bankruptcy, you must propose a repayment plan that details how you are going to pay back your debts over the next three to five years. The minimum amount you'll have to repay depends on how much you earn, how much you owe, and how much your unsecured creditors would have received if you'd filed for Chapter 7 bankruptcy.

**Debt limits-** Your debts must be within limits set by the federal government: Currently, you may not have more than \$1,010, 650 in secured debt and \$336,900 in unsecured debt.

**Secured debts-** If you have secured debts, Chapter 13 gives you an option to make up missed payments to avoid repossession or foreclosure. You can include these past due amounts in your repayment plan and make them up over time.

**Chapter 11-** bankruptcy Chapter 11 is typically used by financially struggling businesses to reorganize their affairs. It is also available to individuals, but because Chapter 11 bankruptcy is expensive and time-consuming, it is generally used only by those whose debts exceed the Chapter 13 bankruptcy limits (rare) or who own substantial nonexempt assets (such as several pieces of real estate).

**Chapter 12-** bankruptcy Chapter 12 is almost identical to Chapter 13 bankruptcy. But to be eligible for Chapter 12 bankruptcy, at least 80% of your debts must arise from the operation of a family farm. Chapter 12 bankruptcy has higher debt ceilings to accommodate the large debts that may come with operating a farm, and it offers the debtor more power to eliminate certain types of liens.

There are many other types of bankruptcy however chapter 7 and chapter 13 are the most common for the average person to file.

**Bankruptcy doesn't work on some kinds of debts.** Though bankruptcy can eliminate many kinds of debts, such as credit card debt, medical bills, and unsecured loans, there are many types of debts, including child support and spousal support obligations and most tax debts that cannot be wiped out in bankruptcy.

## Frequently Asked Questions Associated with Property Taxes

### 1. Will my property tax debt be removed?

No. We do not eliminate any tax debt.

### 2. Can my property be forfeited while in bankruptcy?

No. If the bankruptcy is filed before the property goes into forfeiture then we must withhold from forfeiture.

### 3. Can my property be foreclosed on while I'm in bankruptcy?

No. Even if your property has been put into forfeiture, the process is stopped once we receive notice of your bankruptcy filing.

### 4. What amount of tax is covered under the bankruptcy filing?

The amount covered depends on when the bankruptcy is filed. The amount covered is the amount outstanding at the time of filing. For example, if you owe all of 2011 taxes and the summer of 2012 and you file bankruptcy in October 2012, then all of the 2011 taxes are covered and the summer 2012 but not the winter 2012.

### 5. Will I still receive notices of delinquent taxes?

Yes. We still send notices to those in bankruptcy. Please note that we send these for your information and are not attempting to collect on any debt during your bankruptcy.

**\*\*Disclaimer:** Any information in this pamphlet is for information purposes only and is not meant to be used as legal advice. Legal advice should be obtained from a lawyer or other legal counsel.