

The Advantages and Disadvantages of Filing for Chapter 7 Bankruptcy

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In today's economy, it is very easy to get into financial trouble. You can have a business venture fail or a divorce that causes bills to pile up. There many forms of bankruptcy which are called chapters. In this blog, we will focus on Chapter 7 by looking at the [advantages and disadvantages of filing for Chapter 7 bankruptcy](#).

Chapter 7 Bankruptcy is when you are unable to pay your debts. Your assets are liquidated, and the proceeds go to the creditors to settle the debts. This should be seen as a last resort and is primarily used for business owners. You may feel that you are alone and that it is shameful to have to declare Chapter 7. You shouldn't feel this way. There are plenty of famous people out there who have filed such as Walt Disney, Henry Ford, and Donald Trump. There are plenty of businesses that have filed as well, such as Toys 'R' Us, Blockbuster, and Macy's.

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Michael A. Cibik

To declare Chapter 7, you must be sure that you are not eligible for Chapter 13, where you can pay back some of the money owed to creditors. The whole point of Chapter 7 is to give the debtor a new start. You must meet certain criteria to file for Chapter 7:

Your income must be equal to or below the median

income in your state.

If your income is above, you will have to take a “means test,” which is a calculation used to prevent those who have high incomes from filing Chapter 7 instead of Chapter 13. It is a way to determine your monthly disposable income over six months prior to filing. If you don't pass the means test, you'll have to file Chapter 13, where you will be required to make payments to creditors over a five-year period.

You must attend credit counseling prior to filing. If you failed to attend, then you cannot file.

How [Chapter 7 Works](#)

According to [uscourts.gov](#), you must file bankruptcy in an area where you live or where your business is located. You must file with the court:



Schedule of Assets and Liabilities
Statement of Financial Affairs
Schedule of Income and Expenditures
Schedule of Executory Contracts and Unexpired Leases

You must also provide tax returns or transcripts of tax returns before and during the bankruptcy process. There is a cost to file. The amount depends on how you are filing – a business owner, a single person or as a couple. This cost is usually more for a business owner since the case is more complicated.

Once you have filed, you will be appointed a trustee. This person will also determine if Chapter 7 is applicable to your case. The trustee can revoke the Chapter 7 based on fraud or an error in the paperwork. It is important to note that not all debts will be cleared. Debts not discharged include:

Alimony
Child Support
Student Loans
Certain Taxes
Debts for Death & Personal Injury (e.g. DUI)
Post-petition HOA fees
Debts for crime restitution orders
You can reaffirm a debt, meaning you can make a payment arrangement with a creditor.

The Negatives of Chapter 7

Although the main idea in filing Chapter 7 is to help the debtor financially start over again, there are negatives to filing.

Not for business owners who want to remain in business. When you declare bankruptcy, the business will be closed.

It won't allow you to make past due payments like Chapter 13.

Your property could be subject to liens and mortgages that could go to the creditors.

You must reaffirm a debt before filing bankruptcy for it be not included in the bankruptcy.

Remains on your credit report for 10 years.

Loss of all credit cards.

Can't file Chapter 7 bankruptcy for another six years.

It won't get rid of student loans.

The court can convert the Chapter 7 to a Chapter 13.

Positives to Filing Chapter 7

It may sound odd, but there are some positives to filing.

Bankruptcy process takes 3 – 6 months.

Most states have exemptions that allow you to keep some things. In Pennsylvania, the exemptions include:

Equity in Your home (if you own it)

Personal Property (i.e. clothing)

Wages

Pensions

Insurance or Annuity Payments

Public Benefits

Wildcard

Business Partnership Property

You will be able to keep your wages and property purchased after filing for bankruptcy.

You can get credit cards 1 – 3 years of filing. There are credit cards that strictly for people who have filed bankruptcy.

You can always file for Chapter 13 after filing for a Chapter 7.

Gives you some financial relief.

Bankruptcy prevents lenders from aggressive collection actions.

The number and amount of debts that a bankruptcy can relieve you of are numerous.

There is no specified amount in order to file for relief.

Cibik & Cataldo Can Help with Chapter 7 Bankruptcy

You don't have to face creditors alone. At Cibik & Cataldo, we have over 35 years of experience in bankruptcy law serving Southeastern Pennsylvania. We are ABC certified and know the bankruptcy laws that affect consumers and businesses. We also know all the exemptions that can help protect more of your assets and help you pass the "means test."

We offer a free consultation to help you understand the financial position you are in and if Chapter 7 is right for you. If you do need to file for Chapter 7, we will help you with each step of the process so you will know what to expect. We will make sure all of the paperwork is accounted for and filed properly. Our primary goal to make sure your case goes smoothly. We'll also provide guidance on life after a bankruptcy.

Contact Us Today

At Cibik & Cataldo, we are the Philadelphia bankruptcy lawyers – it's all we do. We are here to help you navigate through the Chapter 7 process. There is life after bankruptcy. Schedule your free consultation by calling us at 215-735-1060 or emailing us. We can set up a meeting that works with your work schedule. We also offer 24/7 support!

About Cibik & Cataldo:

For the last 35 years, Philadelphia, Pennsylvania debt-relief law firm Cibik & Cataldo, P.C., has provided cost-efficient, superior, and value-oriented legal services to thousands of clients in Philadelphia County and the surrounding areas of Delaware County, Montgomery County, Chester County and Bucks County.

Cibik & Cataldo, P.C., is fully-staffed and concentrates solely on consumer and business bankruptcy matters. The firm does not represent banks, finance companies or insurance companies: only individuals, small business owners, and their claims.

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