

# How To File Business Bankruptcies



Running a small business is not easy, especially in times of economic uncertainty and crisis.

## Types of Business Bankruptcy:

### Chapter 7 - Liquidation Bankruptcy:

- **Description:** Dissolves the business and sells assets to repay creditors.
- **Usage:** When there's no viable future or substantial assets.
- **Applicable to:** Sole proprietorships, partnerships, and corporations.

### Chapter 11 - Reorganization Bankruptcy:

- **Description:** Allows continued operations while restructuring debts.
- **Usage:** When the business aims to recover and has valuable assets.
- **Applicable to:** Any business type, but complex and costly.

### Chapter 13 - Adjustment of Debts:

- **Description:** Simplified alternative for individuals and sole proprietorships.
- **Usage:** To create a repayment plan over 3-5 years while retaining assets.
- **Applicable to:** Individuals and sole proprietorships.

### Liquidation, Reorganization, and Subchapter V:

- **Liquidation:** Dissolves the business and sells assets. Can be voluntary or court-mandated.
- **Reorganization:** Allows continued operations and debt restructuring under court approval.
- **Subchapter V:** Simplified Chapter 11 for small businesses with debts under \$7.5 million.

### Benefits of Filing for Business Bankruptcy:

- **Relief from Creditors:** Automatic stay halts collection actions, foreclosure, or eviction.
- **Debt Discharge:** Some or all debts can be legally discharged, relieving financial obligations.
- **Business Reorganization:** Opportunity to restructure debts and retain assets for a fresh start.
- **Fresh Start:** Rebuild credit, reputation, and finances post-bankruptcy.

### Drawbacks of Filing for Business Bankruptcy:

- **Credit and Reputation Hit:** Bankruptcy record impacts credit and relationships for 7 to 10 years.
- **Asset Loss:** Surrender assets to pay creditors, including business equipment and personal belongings.
- **Fees and Costs:** Bankruptcy process involves filing fees, administrative costs, and legal expenses.
- **Legal and Tax Hurdles:** Legal proceedings, tax implications, and regulatory compliance add complexity.