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# **Eligibility For Chapter 7 Bankruptcy - Do You Pass The Means Test?**

There are a number of ways of filing for bankruptcy in the US, and they are referred to as "chapters". With 85% of debtors filing under chapter 7, this is the most popular form of bankruptcy in the US, probably as it removes all debt (there are some exceptions like tax, alimony and student loans to name 3), unlike the second most common form of bankruptcy, chapter 13, where debt is repaid by means of a legally enforced repayment plan.

Even though all the individuals possessions are sold under chapter 7, the end result of freedom from debt makes chapter 7 the most popular for the debtor, but perhaps the least popular for the creditor.

Unfortunately for the creditors, a chapter 7 bankruptcy will often leave them financially out of pocket by a large amount.

Now this may be unavoidable, however, it may be that an individual can, in fact, afford to repay their debts if they are rescheduled under a chapter 13 filing, which is essentially a repayment plan over a 3-5 year period.

Therefore, 2005 saw the introduction of a compulsory means test for individuals seeking chapter 7 bankruptcy, failure of which would automatically push them into a chapter 13 filing, which is a 3-5 year repayment plan.

The means test was introduced to ensure that only those who genuinely cannot repay their debts can claim chapter 7 bankruptcy.

The means test works by taking the applicants average earnings over the past 6 months before filing, and deducting certain monthly expenses to arrive at the net "disposable income".

The first stage of the test is to see if the applicant's disposable income for the previous 6 months is less than the median income for a same sized household in the same state. If it is you can go straight into chapter 7. If not, the applicant is to some extent at the mercy of the court, who decide whether the amount of the applicant's disposable income is sufficient to make some repayment of their unsecured debt. The applicant can often find that the court considers that they can, but in reality it leaves the applicant with very little money to live on, making life tough financially.

If your income is found to be greater than the median then you have to go through some complicated calculations. The problem an individual faces once they fail the first part of the test, is determining if your "disposable income" figure is sufficient, after paying monthly "allowed" expenses, to pay at least a proportion of your unsecured debts (credit cards for example).

The calculations are complex and vary from state to state. It is worth the expense of hiring a legal professional to help guide one through the legal process and get the best possible outcome.

Bankruptcy is a difficult step, in spite of what other people might say to you. It can destroy your financial position as your credit score drops. Although chapter 7 is the most popular form of bankruptcy, it might be worth looking at [chapter 13 bankruptcy law](#). If you would like further free information and advice, visit [www.chapter13bankruptcylaw.net](http://www.chapter13bankruptcylaw.net).