

Toni Braxton, Chapter 7 Bankruptcy & The Means Test

By Attorney John Skiba

www.jacksonwhitelaw.com

In October of this year Grammy Award winning singer Toni Braxton filed a Chapter 7 bankruptcy — showing that no one is immune from a bad economy. In fact, many would be surprised at the number of doctors, dentists, and very high paid business professionals I meet with on a regular basis. The recession has lasted long enough that it has permeated almost every job and profession.

One thing that is interesting about Toni Braxton’s bankruptcy is that she filed for Chapter 7 bankruptcy. When congress amended the Bankruptcy Code back in 2005 they made it more difficult to file a Chapter 7 bankruptcy by imposing a means test which essentially made it very difficult for those with high incomes to file for Chapter 7 bankruptcy. For instance, in Arizona if a family of four makes more than \$66,030 per year (\$5,502 per month) then it is very likely that they will be required to file a Chapter 13 bankruptcy and partially pay back their creditors over a three to five year period. Below is a chart of the current income limits under the means test by family size in Arizona:

<u>Family Size</u>	<u>Income (year/mo.)</u>
1	\$41,915/\$3,492
2	\$54,510/\$4,542
3	\$58,696/\$4,891
4	\$66,030/\$5,502
5	\$73,530/\$6,127
6	\$81,030/\$6,752
7	\$88,530/\$7,377
8	\$96,030/\$8,002

For each additional family member above eight add \$7,500 per person per year.

So that begs the question, how does someone with the assumed wealth that Ms. Braxton has qualify for a Chapter 7 bankruptcy? Essentially it is through a loop hole in the bankruptcy

code which provides that the means test only applies to debtors whose debts are primarily *consumer* type debts. What this means is, if at least 51% of your debts are *business* or *investment* related the means test may not even be applicable in your case.

This comes in handy when a person owns a business and is faced with bankruptcy. Most small business owners have had to personally guarantee all of the business debt. If this number rises to more than half of your total debt (including your mortgage) than regardless of your income you may still qualify for the much shorter Chapter 7 bankruptcy.

Attorney John Skiba offers a free bankruptcy consultation. If you would like to discuss your personal situation you can reach Mr. Skiba at (480) 464-1111.