Don't Settle Debts Before Filing Bankruptcy

The only reason you should negotiate directly with your creditors, is to **avoid bankruptcy**. Remember that working with debt settlement companies is both costly and detrimental to your finances and will likely land you in my office filing for bankruptcy. If you want to avoid bankruptcy, work directly with your creditors for an agreement on what your debt is worth. If they even think you're about to file for bankruptcy, they will most likely make some kind of offer. However, settling debts to avoid bankruptcy comes with a price; Income Taxes!

Beware that if you settle, or negotiate a debt to avoid bankruptcy, you could end up getting a tax bill. while the IRS is forgiving settled debt where mortgages are concerned; the California Franchise Tax Board is not because their program has expired. So, in California, you'll wind up owing state income taxes, if the debt you settled relates to a **secured mortgage in a short sale**.

But what about your **credit cards?** Unsecured debt negotiations and settlements will be taxed by both the state and federal agencies. So, unless you're prepared to pay taxes on the amount that will be written off by your creditor, then, like Cathy Moran said in her blog, Should I Settle Some Debts Before Bankruptcy, your money could be put to better use, like saving for retirement.