Have you ever felt overwhelmed by debt? Although it might feel impossible, you can climb out of debt. There are a number of options available, depending on your situation.

## Examine the Factors

First things first, you need to examine your income, debt, and budget. Perhaps you ended up with a large amount of debt because of situations beyond your control, but if your debt is a result of excessive spending, take a hard look at your finances to figure out where you need to cut back. If you have less income than debt payments, you need to attack the problem now. Curtail all unnecessary expenses. It won't be easy to change your lifestyle, but it's something that needs to be done to break the cycle of increasing debt. Also, look at your debt obligations to find out which ones have the highest interest rates. Pay these debts off first, if possible.

If you're in a heavy debt situation, but it's only temporary and should improve in the near future, you may just need some breathing room. Contact your creditors to explain your circumstances. They may offer to lower your payments or interest rate under a hardship program.

If you're still having trouble meeting your debt payments, or your situation is not temporary, you may want to consider debt consolidation.



## Debt Consolidation

Debt consolidation refinances debt obligations at lower interest rates with specific repayment terms. This can better enable you to make your payments. Consolidation does not eliminate debt or result in more taxable income, but it does help ensure better payment compliance and preservation of your credit score.

If you own a home and have some equity, you may want to look into equity loans or cash-out refinancing. Other options include:

- Refinancing your vehicle
- Taking a personal loan
- Negotiating better terms

## Free resources at www.picpa.org/resources

**The PICPA provides a variety of free resources to help individuals and small businesses thrive financially.**

- **Ask a CPA online service**
- **CPA Locator**
- **Monthly electronic consumer newsletter**
- **And more**

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*Pennsylvania Institute of Certified Public Accountants*

The Pennsylvania Institute of Certified Public Accountants (PICPA), with more than 22,000 members, advocates to strengthen the accounting profession and serve the public interest.

Printed 11/2014 8431/14

# Climbing Out of Debt

*Pennsylvania Institute of Certified Public Accountants*

## Bankruptcy

If expense control and debt consolidation are not strong enough remedies, bankruptcy may be looming. Don't think you are a failure if you need to declare bankruptcy. You are taking a responsible step toward improvement. Although millions of Americans file for bankruptcy each year, be aware that bankruptcy is a big deal. You should understand what you're getting yourself into before you file.

Filing bankruptcy can be complex and difficult, and it can have lasting effects. Don't expect bankruptcy to offer an easy solution to your overspending habits or financial mismanagement. It's intended to relieve you of burdensome debts incurred due to unfortunate circumstances, such as medical problems or unemployment.


## Types of Personal Bankruptcy

There are two types of personal bankruptcy: Chapter 7 and Chapter 13. Under Chapter 7, assets are sold to pay creditors, and any debt that's left is discharged. Under Chapter 13 all of your disposable income will go to pay creditors for a specified period of time, most likely five years. Both types have their own rules regarding what assets you can keep (exempt property) and what debts you can discharge.

An income eligibility test will be applied to all Chapter 7 petitions. If your income is above the median income level in your state, and you're capable of repaying a specified portion of your unsecured debt, you'll be required to file under Chapter 13.

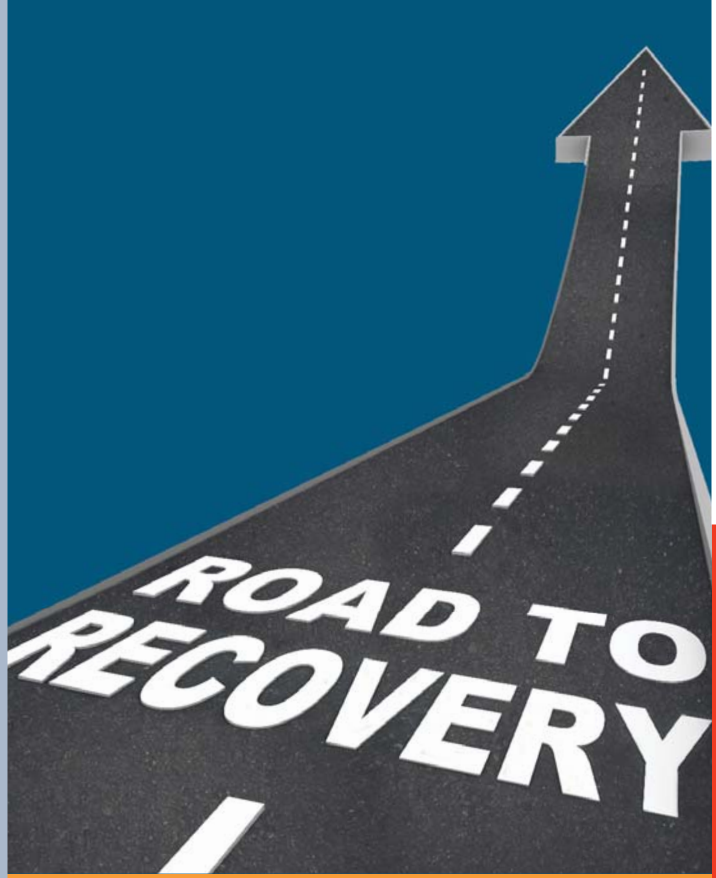
Bankruptcy does not eliminate all types of debts. Most unsecured debts – such as credit cards, medical bills, utility bills, and some deficiencies resulting from foreclosures or repossessions – may be discharged. Some obligations, while possibly reduced, will not be eliminated:

- Child and spousal support
- Most tax debts
- Most student loans
- Secured debts (loans backed by collateral)

Other debts that are not dischargeable under either Chapter 7 or Chapter 13 bankruptcy include the following:

- Debts not included in your bankruptcy papers
- Debts for personal injury or death caused by your intoxicated driving
- Fines and penalties imposed for violating the law

Be cautious when choosing a bankruptcy lawyer. Less-reputable lawyers make easy money handling hundreds of bankruptcy cases without adequately considering individual needs and alternative solutions. Get recommendations from people you know and trust, or from employee assistance programs, and consult the "Where to Go for Help" section of this brochure.




## Tax Implications

Debt that is discharged through bankruptcy does not count as taxable income. Thus, bankruptcy-discharged debt is usually much more powerful than ordinary canceled debt, which can actually create an income tax liability. Discharged debt will be reported at year-end on Form 1099-C, Cancellation of Debt, from your lender. This form must show the amount of debt forgiven and the fair market value of any property foreclosed.

## Life After Bankruptcy

A bankruptcy notation will appear on your credit report for 10 years. It's a serious blemish that can affect you in many ways. You will be able to get credit again, but you may have to pay higher interest rates or provide a cosigner or collateral to get started. Getting new credit will help you establish a new track record, but be careful. You won't be able to declare bankruptcy again for several years.


## Where to Go for Help

A CPA or credit counseling service can develop a plan to climb out of debt. If you seek help with your debt situation, be sure any third-party you turn to will help with your debt and not just collect fees from your limited funds. Some red flags you should be on the lookout for include the following:

- Unrealistic promises – No one can guarantee that unsecured credit card debt can be paid off for pennies on the dollar. Always check the fine print.
- Fees before settlement – A debt settlement company cannot charge you a fee prior to settlement, although they can require a deposit with a third-party administrator.
- Settling tax issues – If you are in the process of settling your debts and find you owe the IRS money for past-due taxes, make certain the person helping you has the proper credentials to practice before the IRS. CPAs, attorneys, and enrolled agents are permitted to represent clients in matters related to the IRS.

CPAs are highly trained financial experts that have a professional code of ethics. Find a CPA in Pennsylvania by location or area of expertise at www.IneedaCPA.org.