

Means Test - New Bankruptcy Reform Act

With the new bankruptcy laws in effect, debtors will have to first pass a two-part means test before filing for Chapter 7 bankruptcy.

First, a quick definition of Means Test:

Means = Money, property, or other wealth (*source: Dictionary.com*)

Your Income Vs. Your State's Median Income

In the first part of the means test, your monthly income multiplied by 12 is compared to your state's median annual income. Your state's median income would be below your state's highest incomes and above your state's lowest incomes.

[Here is a list of state median incomes, organized by family sizes.](#)

If your income falls at or below your state's monthly median income, then your Chapter 7 bankruptcy filing will likely be successful.

On the other hand, if your monthly income does not fall below your state's median income, then your income will then be factored into a formula. Your formula results will determine your ability to file for Chapter 7.

Means Test Formula

Under the Means Test, any creditor, trustee or judge will look at your monthly income, minus certain living expenses like food and rent. Your Chapter 7 bankruptcy will likely be successful if you are unable to pay at least \$6,000 over the next five years (\$100 per month). However, if you can pay at least \$10,000 over five years (\$166.67 per month or more) your Chapter 7 will likely be denied.

If you could afford more than \$6,000 but less than \$10,000 over five years, then a mathematical calculation determines whether your Chapter 7 will likely be successful or not. If you could afford to pay 25% or more of your unsecured debt, then a Chapter 7 will likely be denied. If you can't afford to pay 25% of your unsecured debt, your Chapter 7 filing will likely be successful. Examples of unsecured debts would include medical and credit card bills. Note that you can still opt for Chapter 13 in either of these cases.

Conclusion

You should be aware that the new bankruptcy law lets the government decide what is best for you. The updates take away discretion from the Judges to judge cases based on individual circumstances. It is doubtful that the courts can make exceptions for results.