

Bankruptcy

[Bankruptcy - overview](#)

Overview of bankruptcy and how it might be a suitable option to help you get out of debt.

If you have a debt problem, one of your options for sorting it out might be bankruptcy. You can apply for bankruptcy if you can't pay back your debts.

As well as applying for bankruptcy yourself, someone else you owe money to (a creditor) can ask a court to make you bankrupt, even if you don't want them to. They can only do this if you owe at least £5,000.

Bankruptcy can have serious consequences - it might not be your only option and it might not be the best one for you.

[Debts that bankruptcy covers](#)

Going bankrupt will mean that you will not be liable for most of your debts and you will not have to pay them. However, bankruptcy does not cover all debts so it's important to make sure you know whether any of your debts won't be covered and put plans in place to deal with them.

If you are facing bankruptcy, you'll need expert advice. You can [contact your nearest Citizens Advice](#) to get advice about your debt problems and bankruptcy.

[Check which debts are included in bankruptcy](#)

Most debts that you have when a bankruptcy order is made will be covered by your bankruptcy. If you become liable for things such as court costs or benefit overpayments because of something that happened before the date of your bankruptcy, any debts that arise will still be included in your bankruptcy order. This includes if you are asked to pay them after you are discharged from bankruptcy. This means you will not have to pay them at the end of the bankruptcy period. However, not all types of debt are included in bankruptcy. The people you owe these debts to can still take action to get their money back. This means that before you apply for bankruptcy you should work out how you will deal with any debts that are not covered.

[Debts you will still have to pay](#)

These include:

- magistrates court fines
- any payments a court has ordered you to make under a confiscation order, for example, for drug trafficking
- maintenance payments and child support payments, including any lump sum orders and costs that have arisen from family proceedings, although you may be able to ask the court to order that you don't have to pay this debt
- student loans from the Student Loans Company
- secured loans and other secured debts, such as debts secured with a charging order
- debts you owe because of the personal injury or death of another person, although you might be able to ask the court to order that you do not have to pay this debt

- social fund loans

Check if your mortgage is affected by bankruptcy

You will need to keep paying your mortgage and other essential bills after a bankruptcy order is made. If you fall behind with your mortgage payments, bankruptcy will not stop your mortgage lender from taking steps to repossess your home. However, if your home is repossessed and sold, but doesn't raise enough money to pay off your outstanding mortgage or any other debt secured on it, the remaining debt known as 'mortgage shortfall' will no longer be secured. This means you will be released from it at the end of your bankruptcy. You will also be released from a mortgage shortfall if your home is sold at any time, even after your bankruptcy has ended.

Fraudulent debts

If you took out any of your debts by fraud, your creditor cannot chase you to pay them while you are bankrupt, but you won't be released from them at the end of the bankruptcy period. This means you will still be liable for paying debts you obtained by fraud after you have been discharged from bankruptcy.

Debts in joint names

If you owe debts jointly with someone else, you can include these in your bankruptcy. However, the creditor would then be able to chase the other person for the whole of the amount that is owed. They can do this whether the person is working or not.

You and the other person can each apply for bankruptcy individually, which would cover the joint debt. You will each need to pay a fee and a deposit separately. You cannot jointly apply for bankruptcy.

Guarantor debts

If someone is a guarantor for a loan you've taken out it will be included in your bankruptcy, but the other person will still have to pay the debt.

If you are the guarantor and the other person fails to pay, it will be included in your bankruptcy and the creditor will not be able to chase you for it.

Business debts

Business debts are covered by bankruptcy. If you have business debts that were taken out in a partnership, you can make a joint application for bankruptcy if all the partners agree. If you are thinking about doing this, you should take specialist advice.

[Find out more information about partnership joint applications](#) on GOV.UK.

Business Debtline (BDL) is a charity which offers free, impartial and confidential advice to businesses in financial difficulty in the UK both on its website and by a helpline.

Business Debtline

Freephone: 0800 197 6026 (Monday to Friday from 9am to 5pm)

Website: www.bdl.org.uk

Other debts you might need to pay

- Rent arrears for the place where you live - these will be included in a bankruptcy order but your landlord could still take action to evict you. It's important that you make a plan to pay your rent arrears after bankruptcy if you want to keep your tenancy.

- Hire Purchase (HP) - if you have a HP agreement for essential items like household goods or a low value car, you'll need to make an arrangement with the lender to keep paying for the goods if you want to keep them. The bankruptcy will not stop the lender from taking action to get the goods back if you stop paying. If the goods have been repossessed already then, any debt outstanding will be covered by the bankruptcy.

Checklist-Is Bankruptcy right for you?

Bankruptcy can help you become free of debts but it isn't the right option for everyone. It's important to understand how it will affect your day-to-day life and to explore the alternatives.

Bankruptcy explained

If you want more information about what bankruptcy is and how it works, see [Bankruptcy - what you need to know](#).

When bankruptcy might be right for you

Bankruptcy might be suitable for you if all the following apply:

- you cannot see a way to pay your debts
- you do not have many belongings of value and there is little or no equity in your home
- it's unlikely that your situation will improve
- you live or carry out a business in England or Wales, or have done so at any point in the last 3 years and do not live permanently in another European state (apart from Denmark)

There is not a minimum amount of debt you need to be eligible. If your unsecured debts total more than the things of value you own, then bankruptcy is an option for you. Unsecured debts include things like credit cards, personal loans and store cards.

When bankruptcy might not be right for you

Bankruptcy might not be suitable for you if any of the following apply:

- you work in certain occupations such as solicitor, accountant or estate agent, as your professional association might bar bankrupt people from membership
- you do not want your debt problems to be public
- your circumstances might change in the near future - for example, if you're going to inherit money or you're expecting a compensation payment, it might be better to use this to deal with your debts
- you have access to a pension pot that is bigger than your debt - you might not be allowed to become bankrupt

Your financial behaviour

The official receiver has the power to investigate your financial behaviour before and after your bankruptcy order is made. If you've done anything they think is dishonest or reckless they could get a 'bankruptcy restrictions order' against you. Or if they think you have committed a 'bankruptcy offence', you could be fined or sent to prison. Before you consider bankruptcy, [check what counts as a bankruptcy offence](#).

Top tip

If you're considering bankruptcy, you'll need expert advice. [Contact your nearest Citizens Advice](#) for advice about your debt problems and bankruptcy.

Other things to think about

Going bankrupt could have a big impact on your life, so it is important you think about how it will affect you.

Cost of bankruptcy

Going bankrupt costs £680. You need to make sure you can afford to go bankrupt.

- More about the [cost of going bankrupt](#).

Your income

If your income is high enough, you could be asked to make contributions towards your bankruptcy debts. This is called an income payments agreement (IPA). If you do not agree to this, the court could make an income payments order (IPO) to force you to pay. [Find out more about income payment agreements](#).

Your home

If you own your home, it might be sold, and the proceeds used to pay your creditors.

If you rent your home, you could lose it if your tenancy agreement says that you cannot rent the home if you are bankrupt. You might find it harder to find a new home to rent.

- More about the [impact of bankruptcy on your home](#).

Access to credit

While you are bankrupt you can't borrow more than £500 without telling the creditor about your bankruptcy.

Bankruptcy will have a serious impact on your credit rating. This could make running a business, getting a mortgage or getting other credit very difficult for a long time.

- More about the [impact of bankruptcy on your credit rating](#).

Your belongings

If you have any belongings, apart from basic household goods and things you need for work, they might be sold and the proceeds used towards paying your creditors.

- More about the [impact of bankruptcy on your belongings](#)

Your bank account, savings and pension

Your bank account will usually be frozen as soon as you are made bankrupt. You will need to make sure you have some money set aside to cover day to day costs at the beginning of your bankruptcy. Any savings you have will be taken and used towards paying your creditors.

If you have any pensions, bankruptcy might affect your pension savings. Pensions are a complex area so before you decide to apply it's important to get advice.

- More about the [impact of bankruptcy on your bank account, savings and pension](#).

Your job or business

Check the terms of your contract of employment carefully to see if it says you have to tell your employer if you go bankrupt. This is particularly likely if you work in a financial organisation or role and your job could be at risk if you go bankrupt.

If you run a business while you are bankrupt, you can only trade in the business name that you used on the date of the bankruptcy order. You cannot usually run a company or be a company director whilst you are bankrupt.

- More about the [impact of bankruptcy on your job or business](#).

Dealing with debts not covered by bankruptcy

While bankruptcy will clear many types of debt, there are some that are excluded, including magistrates court fines and student loans. If you owe any debts that are excluded, the people you owe these debts to can continue to chase you and take action to get their money back during your bankruptcy period. You therefore need to make sure you know which debts your bankruptcy will not cover and work out how you will pay them back.

- [More about the debts bankruptcy covers](#)

Bankruptcy will be public knowledge

If you go bankrupt, it will be recorded in public records that anyone can access. If you, or a member of your family that you live with, would be at risk of violence if your details were published, you can ask the court to order that this does not happen.

- [Will your bankruptcy be public knowledge?](#)

British citizenship applications and immigration status

Being declared bankrupt could have an impact on your immigration status or any application you are making for British nationality. You should make sure you understand how it might impact you before you go ahead with a bankruptcy application.

- More about the [impact of bankruptcy on applications for British Citizenship or your immigration status](#)

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Information taken from the following website

<https://www.citizensadvice.org.uk/debt-and-money/debt-solutions/bankruptcy-2/>