

How Is Income Defined In Bankruptcy?

If you're filing Chapter 7 bankruptcy, then you will have to take what's called a means test. This test will calculate your income for the six months prior to filing bankruptcy. But what is considered income in bankruptcy? Bankruptcy court defines incomes as...

“the average monthly income from all sources that the debtor receives (or in a joint case the debtor and the debtor's spouse) without regard to whether such income is taxable income, derived during the 6-month period prior to filing bankruptcy.”

Let's take a closer look at what all of that means.

Six-Month Timeframe

If you filed a Chapter 7 bankruptcy in October, the means test would look back at the income you earned April 1st through September 30th.

Wages

If you're working a job—full-time, part-time, on call, contract—then you are receiving wages for your labor, and that's considered income in bankruptcy. If you're receiving cash (off the books) income from a side gig, this is also considered income and must be reported on your means test, even if you haven't reported that income to the IRS.

Earned Income

Any money that you earned during the six months prior to your bankruptcy filing is considered income in bankruptcy. This includes any money you earned but did not actually receive at the time. If you're a business owner, then you probably sometimes receive income months after you've done the work for it. Realtors, salespeople and all types of contractors may have a lot of earned income that they don't receive until months later.

Investment Income

If you're receiving income from stocks, bonds, mutual funds, rental property or businesses, this is considered income in bankruptcy. You're required to report all investment income on your means test.

Retirement Income

Any income you receive from a pension, 401(k) or other retirement account must be reported in your bankruptcy means test, even if this money is not being taxed.

Veterans Benefits

If you're a veteran and receive benefits, this money is viewed as income in bankruptcy. However, if you're a disabled veteran, it's possible that you may be allowed to skip the means test completely. To find out more you'll need to discuss your situation with your bankruptcy attorney.

Exceptions

There are some exceptions when reporting income on your bankruptcy means test. The following are not included when calculating your income on the Means Test:

- Social Security payments
- SSDI payments

If you're confused about what income must be included in the means test, please give me a call.