

Understanding Small Business Bankruptcy

Bankruptcy is often considered a last resort for businesses unable to repay their debts. Small business bankruptcy will generally fall into one of the following categories: Chapter 13, Chapter 11, and Chapter 7.

Chapter 13

Chapter 13 bankruptcy is often used for individuals, but can apply to sole proprietorships. Chapter 13 allows a sole proprietorship to restructure its debt and develop a repayment plan, rather than liquidating (selling) its assets to repay its debts. Chapter 13 will protect a sole proprietor's personal assets, such as a car or a home, which could be liquidated (sold) under other chapters. For more information about Chapter 13, click [here](#).

Chapter 11

Chapter 11 bankruptcy, commonly known as "reorganization" bankruptcy, is a way for businesses to delay its debt repayments. Under Chapter 11, a business entity can continue operations while it reorganizes its finances and operations under court supervision. The goal of Chapter 11 bankruptcy is to afford a business entity a bit more time to pay off its debts in full. This may be an appropriate option for businesses that have experienced a loss in revenue due to a specific event (For example, Chapter 11 was commonly filed during the COVID-19 pandemic). Businesses must be able to demonstrate a viable plan to increase revenue enough to repay its debts after a period of reorganization. For more information about Chapter 11, click [here](#).

Chapter 7

Chapter 7 bankruptcy involves liquidation of all assets, and should only be utilized by businesses that have no intentions to continue operations and have exhausted all other options. In the case of Chapter 7, a business entity's assets will be liquidated (sold) to repay its debtors. Generally, the business owners will not be held personally liable. However, in certain cases, like a sole proprietorship, or if a business owner has personally guaranteed a business loan, a business owner's assets may be liquidated (sold) as part of the bankruptcy process. For more information about Chapter 7, click [here](#).

If your business is facing potential bankruptcy, it is advisable to meet with an attorney and/or a financial business consultant to discuss further.

Additional Resources

Legal Assistance:

- [Philly VIP](#)
- [Philadelphia Volunteer Lawyers for the Arts](#)
- [The Bar Association's Lawyer Referral and Information Service](#)

Financial consulting:

- [Community First Fund](#)
- [Clarifi](#)

Written Resources:

- [City Bar Justice Center Small Business Bankruptcy PowerPoint](#)
- [IRS Bankruptcy Information Page](#)

