Facing bankruptcy? You won't be left with nothing

KEY POINTS

• Bankruptcy might feel like you're at financial rock bottom but it's actually a chance to start afresh.
• There's plenty of misconceptions around bankruptcy, which is why it's important to speak with a personal insolvency specialist.
• Personal insolvency numbers are expected to rise towards pre-COVID levels over the next two years.
• Truth and transparency are critical to the bankruptcy process.

One of the first questions we get when people talk to us about bankruptcy is, "Will I lose all of my income and assets?" The answer is no.

Sadly, such myths mean a lot of financially distressed individuals try to battle on because they're scared of what they think personal insolvency (bankruptcy) means. As a result, they can get further and further into debt and emotional turmoil. That's why it's best to speak with personal insolvency specialists – bankruptcy trustees – to make sure you get clear guidance, understand what's involved in the process and, should you proceed, ensure everything is handled correctly and, ultimately, the financial pressure is eased.

The Australian Financial Security Authority (AFSA) predicts personal insolvency numbers will rise towards pre-COVID levels over the next two years, particularly due to cost of living pressures and wider economic uncertainty. That's certainly ringing true; my fellow bankruptcy trustees and I have had more calls in recent months than in the past few years. We understand it's hard for people to face the fact they might need to file for bankruptcy. But while it might feel like rock bottom, it's actually a chance to start afresh and to get out of a financial – and often emotional – hole. Bankruptcy can give people a second chance.

The personal insolvency process involves a series of steps and procedures that must be followed. Truth and transparency are critical to the bankruptcy process. Another point I'd like to make is that the personal insolvency regime has flexibility embedded in it. For example, there are hardship clauses if you require medical treatment. Which is why speaking with a bankruptcy trustee can give you the information you need to dispel any myths and provide vital support to get you through the process. At the end of the day, you're dealing with numbers on a page. They aren't worth the stress on your body, mind and relationships.

Here we look at three common misconceptions around bankruptcy:

1. You can't earn money when you're a bankrupt

There's no limit as to how much you can earn whilst in bankruptcy; however, one-half of a bankrupt's net income (after tax and other deductions) after a certain threshold will be paid to the bankruptcy trustee, and this amount changes depending on how many dependants you have (see below table). AFSA understands those declaring bankruptcy need to care for their family and dependents – even if you have a split family.

As part of the process, those in bankruptcy must forecast their income contribution levels over 12 months and then report if their income goes over the threshold, which means they then have to top up the contributions.

Income contributions from the bankrupt person

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Limit, threshold or payment	Amount
Base income threshold amount (BITA)	$66,639.30 (after tax)