Bankruptcy is not as effective a remedy when dealing with taxes as with other debts. In general, only old taxes debts can be discharged in a chapter 7 bankruptcy, for example, where the debt stems from a timely filed return that is more than three years old. Existing tax liens are likely to remain on your property even after a bankruptcy. In a chapter 13 bankruptcy, the full amount of the taxes owed can be paid in installments over a three-year to five-year period, and only the more recent (priority) taxes and not necessarily the entire tax liability and not tax penalties need be paid.

Source: National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library
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