You can legally take steps that improve your position prior to filing bankruptcy, called “exemption planning.” Exemption planning is an arrangement that allows you to keep the maximum amount of property after filing bankruptcy and lose as little as possible to creditors. It is similar to taking maximum advantage of tax laws, and, if done reasonably, it is perfectly legal.

You do this by making sure that as much of your property is “exempt” under applicable law and as little of your property is nonexempt. For example, you might sell nonexempt property and purchase exempt property. But an excessive transfer of property to create exempt assets can sometimes be found to be in bad faith. You cannot simply give away nonexempt property or sell it at nominal cost.

Any transfer of property within two years of filing must be disclosed. Improper transfers of property to third parties can be recovered and may be grounds for denying a discharge. The advice of your bankruptcy attorney can be key here.

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