

Step 5 The plan goes into operation until debts are retired.

It should be noted that some debts such as IRS obligations and governmentally approved educational loans will not be reduced through Chapter 13 proceedings. Debts occasioned by fraudulent conduct will not be removed through bankruptcy. Similarly, Chapter 7 protection does not exempt the debtor from paying these debts.

Chapter 7 of the U.S. Bankruptcy Code erases (or discharges) all debt by matching assets against liabilities. Certain assets, however, are exempt from creditors' claims. A court-appointed trustee liquidates only assets that exceed these exemptions and the proceeds distributed pro-rata to creditors. Exemptions allowed under the federal bankruptcy code include the following:

- Necessary clothing
- Bibles
- School books
- Family photos
- Other household furnishings, household goods, musical instruments, appliances not to exceed \$450.00 per item or \$9,300.00 aggregate value.
- Personal jewelry up to \$1,150.00
- Equity interest in one motor vehicle up to \$2,775.00
- Equity interest in any professional books or tools up to the amount of \$1,750.00
- Professionally prescribed health aids for the persons or a dependent
- Payment under a life insurance contract that insured the life of an individual of whom the debtor was a dependent on the date of such individual's death, to the extent reasonably necessary for the support of the debtor and any dependent;
- Cash value of a life insurance policy up to \$9,300
- A person's right to receive Social Security benefits, unemployment compensation, worker's compensation benefits, public assistance benefits, veteran's benefits, disability, illness or unemployment benefit, alimony, support, or separate maintenance to the extent reasonably necessary for the support of the person or any dependent of the person.
- A homestead exemption of up to \$17,425.00
- Retirement plans if it qualifies under the Internal Revenue Code or certain state laws.
- Any other assets up to \$925.00 plus up to \$8,725.00 of any unused homestead exemption.

Some states may provide more generous exemptions or may have opted out of the federal exemptions.

These are some of the general guidelines as to how much can be kept by the debtor. Chapter 7 legally clears away all debt (except IRS, school loans, and fraudulently incurred obligations) and seeks to provide the family with a new start.

Important: Remember to tell each client that you are not legally trained and do not purport to know all the facts surrounding Chapter 13 and Chapter 7. The information provided here is not comprehensive and may not be current or fully accurate. Your counsel is not a substitute for that of a lawyer.

For a biblical perspective on bankruptcy, see page 284.