**Can Filing Bankruptcy Help Me with Tax Problems?**

**I have heard that you cannot get relief from tax debts in bankruptcy. Is this true?**

Not necessarily! Bankruptcy can help you eliminate some tax debts, and help you better cope with others. The law is complicated, and this brochure is meant to give you general information only. See an attorney for information and advice on whether bankruptcy is in your best interests.

**How can bankruptcy help me with my tax problems?**

There are several ways bankruptcy can help. First, some kinds of tax debts can be discharged (eliminated) in bankruptcy. Alternatively, a Chapter 13 bankruptcy reorganization may help you pay off tax debts over a 3-5 year period while stopping interest and penalties from continuing to add up. Finally, even if your taxes can’t be discharged, filing bankruptcy and eliminating other debts may help your budget and make it easier for you to work out your tax problems (see below).

**What kind of taxes can be discharged?**

Generally, state and federal income taxes can be discharged only if they became due (in other words, the tax filing deadline occurred) at least three years before the bankruptcy was filed. There are also other requirements that must be met, and there are certain rules which may extend the three year period. You should see an attorney in order to determine whether your taxes meet all requirements for discharge, and whether bankruptcy is in your best interests.

**What kind of taxes cannot be discharged?**

There are several situations in which your tax debts cannot be discharged. These include:

* Failure to file tax returns
* Fraud or tax evasion
* Employee withholding taxes and certain other types of taxes
* Tax liens on your property (even if the tax debt is discharged, the government retains a lien on your property)

**Can property taxes be discharged?**

In certain circumstances, yes. The tax may be dischargeable if the bankruptcy is filed at least one year after the last date the tax could have been paid without penalty. If the property tax has become a lien, however, the lien cannot be discharged. As with income or other taxes, an attorney can evaluate your tax debts and help determine whether they can be discharged.

**So my tax can’t be discharged. Should I pay my tax with a credit card, then discharge my credit card debt in bankruptcy?**

No, that strategy usually doesn’t work. Under law, if you use a credit card to pay a debt that was not dischargeable in bankruptcy (such as non-dischargeable taxes), that credit card debt also cannot be discharged in a Chapter 7 bankruptcy. The same is true if you take out a loan to pay the taxes. If you have already done this, you still may be able to get some relief in a Chapter 13 bankruptcy (debt repayment plan), and may want to consult with an attorney for advice or assistance.

**Are there good alternatives to bankruptcy to help me deal with taxes?**

In many cases, yes. Bankruptcy may not be the only, or even the best way to deal with taxes.

Indiana Legal Services, Inc., has a Low Income Tax Clinic (LITC) which can help you explore other solutions for your tax debts. These include Offer in Compromise, Currently Not Collectible status, installment agreements, Innocent Spouse relief, Injured Spouse relief, and other remedies. Feel free to apply for assistance if you think you may be eligible for relief. Note that our income guidelines for the LITC are different from those for other legal assistance.