

Many people contemplating filing for Bankruptcy want to know what happens to their tax refunds. It depends on when you file your case. At this time of year (December/January) there are two ways to play it:

Option #1 is that you file your 1040 as soon as you can in the new year, get your refund and spend it on the cost of filing your bankruptcy case or other necessary living expenses (not on debts and friends and family).

Option #2 is to file your case and exempt the refund if you have enough room to also exempt all other assets. The problem with option #2 is that it uses up exemptions you could use to keep other assets and it only works where you can fully exempt the tax refund and still have other assets protected (exempt) as well. This we determine case-by-case with each client based on their situation.