

Can You Continue Operating Your Business After Filing for Bankruptcy?

Filing for bankruptcy can be a challenging decision, but it's important to understand that bankruptcy laws exist to protect business owners and entrepreneurs, allowing many companies to stay operational after a successful restructuring. Filing for bankruptcy doesn't always mean shutting down; in fact, certain [bankruptcy types](#) allow you to discharge debt, reorganize finances, and set your business up for a stronger, more profitable future. Large corporations, from airlines to auto manufacturers, have filed for bankruptcy to restructure debt and improve efficiency, ultimately leading to financial stability and growth.

If you're facing overwhelming debt and considering bankruptcy for your business, it's essential to work with experienced bankruptcy lawyers who can guide you through the process, protect your assets, and help create a viable path forward.

How Different Types of Bankruptcy Can Affect Your Business

The future of your business after filing for bankruptcy largely depends on the type of bankruptcy you file. Each bankruptcy type has distinct processes, eligibility requirements, and outcomes for your business's operations, assets, and overall structure. Here's a breakdown of how different types of bankruptcy may impact your business and your ability to keep it running.

Chapter 7 Bankruptcy: Liquidation Bankruptcy

What It Means: In [Chapter 7 bankruptcy](#), a court-appointed trustee sells non-exempt assets to pay off creditors. Chapter 7 is often considered a "liquidation" bankruptcy, where assets are sold to settle outstanding debts, and any remaining unsecured debts are discharged.

Implications for Your Business:

- **Sole Proprietors:** If you're a sole proprietor, Chapter 7 can potentially allow your business to stay open while discharging personal and business debts. Many sole proprietorships have minimal assets, so this type of bankruptcy may not necessarily mean selling off significant business equipment or resources. Additionally, as a sole proprietor, any dischargeable business debt will be included in your personal bankruptcy, allowing you to move forward with fewer financial burdens.
- **Corporations and LLCs:** For corporations or limited liability companies, filing Chapter 7 often means closing down. When a separate legal entity (like a

corporation or LLC) files Chapter 7, it is essentially liquidated to satisfy debts, and business operations typically cease. This type of bankruptcy may be best if the business cannot be financially rehabilitated and you are seeking a clean start.

Chapter 13 Bankruptcy: Reorganization for Sole Proprietors

What It Means: Chapter 13 is primarily a reorganization bankruptcy option available to individuals and sole proprietors. It allows business owners to create a debt repayment plan that lasts between three and five years. Under [Chapter 13 Bankruptcy](#), you retain ownership of your assets and make manageable payments to creditors based on your income and expenses.

Implications for Your Business:

- **For Sole Proprietors Only:** Chapter 13 is specifically available to sole proprietors, not to corporations or LLCs. This makes it a viable option if you own a small business as a sole proprietor and wish to keep operating while addressing both personal and business debts.
- **Debt Limits:** Chapter 13 has debt limits for both secured and unsecured debts, which means that if your business debts exceed a certain threshold, you may need to consider Chapter 11 instead.
- **Personal and Business Debt Included:** As a sole proprietor, you can include both personal and business debts in your Chapter 13 plan. This flexibility helps streamline repayment, allowing you to address all financial obligations while keeping your business assets.

Chapter 11 Bankruptcy: Reorganization for Complex Business Structures

What It Means: Chapter 11 is known as reorganization bankruptcy, and it's the only type of bankruptcy that permits partnerships, LLCs, and corporations to reorganize and remain operational. Unlike Chapter 7, which focuses on liquidation, Chapter 11 allows you to create a reorganization plan to pay creditors over time, while retaining ownership and control of business assets.

Implications for Your Business:

- **Reorganization and Restructuring:** Chapter 11 enables your business to restructure debt while continuing operations. This can involve negotiating with creditors, modifying contracts, and [reorganizing your debt payments](#) to create a feasible path forward.
- **Applicable to All Business Structures:** Chapter 11 is available to all business entities, making it ideal for corporations, partnerships, LLCs, and large sole proprietorships with substantial debts.

- **Potential for Long-Term Success:** Chapter 11 is often complex and costly, but it offers substantial benefits. By reducing debt load and reorganizing finances, businesses can regain profitability, stabilize cash flow, and position themselves for future growth.
- **Subchapter V for Small Businesses:** Recently, the Small Business Reorganization Act (SBRA) introduced **Subchapter V** to make Chapter 11 more accessible for small businesses. Subchapter V simplifies the process, reduces costs, and offers faster restructuring options, especially [beneficial for small businesses](#) with less than \$7.5 million in debt.

Key Considerations When Filing for Business Bankruptcy

1. Business Structure Matters: The type of bankruptcy that best suits your business depends on whether you operate as a sole proprietor, LLC, or corporation. Different structures have different protections, and the type of entity influences whether you can retain ownership after bankruptcy.

2. Asset Protection and Exemptions: While Chapter 7 typically involves asset liquidation, certain exemptions may allow you to keep essential business equipment or inventory. An experienced bankruptcy lawyer can help identify available exemptions to protect your most valuable assets.

3. Personal Liability: In cases where business debt overlaps with personal liability (as is common in sole proprietorships), bankruptcy can discharge both types of debt. Corporations and LLCs, however, may not provide personal protection, so personal assets may be at risk without separate bankruptcy filing.

4. Recovery and Rebuilding: Bankruptcy does impact your credit and financial standing, but with the right strategy, it's possible to rebuild. Bankruptcy offers a chance to reset, eliminate debt, and focus on building a healthier, more sustainable business.

Consulting with a Bankruptcy Attorney to Protect Your Business

Deciding to file for bankruptcy is a major decision that requires strategic planning and professional guidance. An experienced [bankruptcy lawyer](#) can assess your financial situation, help you navigate legal requirements, and develop a clear path forward. From evaluating whether Chapter 7, 11, or 13 is most beneficial to guiding you through paperwork and creditor negotiations, a bankruptcy attorney is an essential partner in the process.

Bottom Line: Bankruptcy as a Tool for Business Recovery

Bankruptcy isn't necessarily the end for your business. For many owners, it's a financial tool that provides the chance to stabilize, restructure, and emerge stronger. By understanding the options, working with an experienced attorney, and following a

carefully planned strategy, you can use bankruptcy as a stepping stone toward future success.

Contact Carosella & Associates for Bankruptcy Guidance

If you're considering bankruptcy to address business debt, the skilled bankruptcy attorneys at Carosella & Associates are here to help. We specialize in guiding businesses through bankruptcy, helping owners make informed decisions that protect their interests and set the foundation for a brighter financial future. [Contact us today](#) to schedule a consultation and explore your options.