

Bankruptcy and Liquidation

When your business runs into financial trouble, take the time to seek advice and support as soon as possible, to understand what options are available. Bankruptcy or liquidation should be a last resort.

Seek advice and support

If your business is struggling with debt, it may feel like bankruptcy or closing your business is the only option. Before you do anything, seek advice from a professional. They can suggest different ways of repaying your debt that don't involve bankruptcy or closing your business. If you don't have an accountant or a financial advisor, try calling a free financial counsellor in your area. It's also important to know there are personal counselling services that can help you through stressful times.

Understanding bankruptcy and liquidation

Bankruptcy and liquidation are ways of dealing with debt that can't be repaid. Bankruptcy only applies to individuals (not companies). When you become bankrupt, you are declared by law to be unable to pay your debts. It will get rid of most of your debts and debt collectors will stop contacting you. Bankruptcy lasts for 3 years and can affect your financial future, so it should be considered as a last resort. Liquidation only applies to companies. When a company can't pay its debts and goes into liquidation, it stops operating. Company assets are sold in an attempt to pay off the debts.

How they apply to your business

If you operate your business as a sole trader or partnership, you or your partners can become bankrupt as individuals (the business itself doesn't become bankrupt). If you operate your business as a company and it has unmanageable debt (known as being insolvent), it cannot continue operating.

Ways to deal with debt (for sole traders and partnerships)

If your business has a lot of debt, seek help straight away from a professional, such as an accountant or a free financial counsellor. They will assess your situation and give you advice on how to manage the debt. They may suggest asking your creditors (people or businesses you owe money to) to give you more time to pay your debt, or accept a smaller payment to settle the debt. Your financial advisor or counsellor may also talk to you about the four options for dealing with debt that are available: declaration of intention, debt agreement, personal insolvency agreement, bankruptcy. Debt agreements and personal insolvency agreements are 'acts of bankruptcy', which means that if your creditors don't accept the agreement, they can choose to take you to court and make you bankrupt.

Declaration of intention

You can freeze most of your debts for 21 days by lodging a declaration of intention (DOI). This gives you some time to consider what you can do to manage your debt, to avoid 'acts of bankruptcy'. To lodge a DOI, you must meet certain conditions.

Debt agreement

In a debt agreement, you can offer to settle your debts by: paying a lump sum that may be less than the amount you owe, repaying your debt in instalments, freezing the debt for a

certain time, so you won't need to start repaying it until you get back on your feet. To make a debt agreement, the majority of your creditors will need to accept it. You must also meet certain conditions to be eligible for it, including having your income, assets and debt under a certain limit.

Personal insolvency agreement

A personal insolvency agreement (PIA) lets you pay off your debt in a way that suits your financial situation. It's like a debt agreement, but your debt, income and assets don't have to be under a certain limit. There's a chance that you'll end up paying more by signing a PIA than by declaring bankruptcy, so make sure you understand the consequences of each before deciding.

Bankruptcy

There are two ways to become bankrupt: you can volunteer to become bankrupt or your creditors (people or businesses you owe money to) can apply for you to be made bankrupt. Becoming bankrupt means a registered trustee will take control of most of your finances and try to pay off your debts. They may sell your assets (though you can keep some types of assets, like personal belongings) and take any income you earn over a certain limit. Your bankruptcy will be permanently recorded on the National Personal Insolvency Index and included in your credit report for seven years. Bankruptcy usually lasts for three years. During this time, you'll be restricted in what you can do. For example, you won't be able to run a business or work in some trades and professions.

Adapted from www.business.gov.au

Ex. 1 Find the words or expressions in the text which mean the following:

- 1) a solution used when all other have failed: _____
- 2) to return money you've borrowed: _____
- 3) to eliminate sth: _____
- 4) to have influence on sth: _____
- 5) unable to pay back debts: _____
- 6) to judge sth: _____
- 7) a person you need to pay back money to: _____
- 8) to say that sb can't use their wealth: _____
- 9) a fixed amount of money: _____
- 10)to have to pay money back to sb: _____
- 11)to have the right to use sth: _____
- 12)to agree to do something without being made to: _____

Ex. 2 Match the expressions from the two columns into logical collocations:

- | | |
|------------------|--------------------|
| 1) to run into | trader |
| 2) to struggle | liquidation |
| 3) a counselling | financial trouble |
| 4) to apply | service |
| 5) a debt | certain conditions |
| 6) to go into | debt |
| 7) a sole | collector |
| 8) unmanageable | agreement |
| 9) an insolvency | to sb / sth |
| 10)to meet | with debt |

Ex. 3 Provide English equivalents of these expressions:

1) zasięgnąć porady	7) rozważyć coś
2) zostać uznanym za ...	8) rozłożyć spłatę na raty
3) aktywa przedsiębiorstwa	9) stanąć na nogi
4) uregulować należność	10)zapłacić więcej w ostatecznym rozrachunku
5) wejść na drogę sądową	11)powiernik
6) wnieść coś (np. skargę)	12)coś trafia do akt

Grammar corner...

There were several PREPOSITIONS used in the text, e.g. for, off, under, on, with, into, through. While they have their own meanings, for instance *off* means completion, *on* means continuation, and *with* means cooperation, most of the time you need to know how they are used, because they are frequently collocations.

Ex. 4 Without looking back in the text, fill in the missing PREPOSITIONS.

- 1) To be eligible ... government assistance, you need to prove that you've been unemployed for 6 months.
- 2) If you can't pay ... your debts, you will be declared bankrupt.
- 3) If your debt is ... a certain limit, you may have some other options to choose from.
- 4) Bankruptcy will not exactly get rid ... your debts, it will make them easier to return.
- 5) If you need some advice ... how to act when in debt, contact a financial advisor.
- 6) If you can't deal ... your debt, there are people out there to help you.
- 7) Once you're back ... your feet, you may start paying back the money you owe.
- 8) Everyone can run ... debt, so manage your finances carefully.
- 9) If your business is struggling ... financial difficulties, don't close it down straight away.
- 10) There are organizations that will help you ... the difficult and stressful times.

GLOSSARY	
in an attempt to do sth	w dążeniu do czegoś
as a last resort	w ostateczności
to get rid of sth	pozbyć się czegoś
to affect sth	wpływać na coś
insolvent	niewypłacalny
a creditor	wierzyciel
to assess sth	ocenić coś
to freeze sb's assets	zamrozić czyjeś aktywa
a lump sum	zryczałtowana kwota
to owe sb money	być czyimś dłużnikiem
to be eligible for sth	być uprawnionym do czegoś
to struggle with sth	borykać się z czymś
a counselling service	doradztwo
to apply to sb / sth	mieć zastosowanie do kogoś / czegoś
a debt collector	windykator należności
to go into liquidation	rozpocząć proces likwidacji
a sole trader	osoba fizyczna prowadząca działalność gospodarczą
unmanageable debt	dług, który wymknął się spod kontroli
to meet certain conditions	spełnić określone wymogi
to be declared to be unable to ...	zostać uznanym za niezdolnego do ...
to settle a debt	uregulować należność
to take sb to court	wejść na drogę sądową
instalments	raty
to end up doing sth	zrobić coś w ostatecznym rozrachunku
a trustee	powiernik
sth is permanently recorded	coś trafia do akt

ANSWER KEY:

Ex. 1

- 1) a last resort
- 2) to repay a debt
- 3) to get rid of sth
- 4) to affect sth
- 5) insolvent
- 6) to assess sth
- 7) a creditor
- 8) to freeze your assets
- 9) a lump sum
- 10) to owe sb money
- 11) to be eligible (for sth)
- 12) to volunteer to do sth

Ex. 2

- 1) to run into financial trouble
- 2) to struggle with debt
- 3) a counselling service
- 4) to apply to sb / sth
- 5) a debt collector
- 6) to go into liquidation
- 7) a sole trader
- 8) unmanageable debt
- 9) an insolvency agreement
- 10) to meet certain conditions

Ex. 3

- 1) to seek advice
- 2) to be declared to be unable to ...
- 3) company assets
- 4) to settle a debt
- 5) to take sb to court
- 6) to lodge (e.g. a complaint)
- 7) to consider sth
- 8) to pay in instalments
- 9) to get back on your feet
- 10) to end up paying more
- 11) a trustee
- 12) sth is permanently recorded

Ex. 4

- 1) for
- 2) off
- 3) under
- 4) of
- 5) on
- 6) with
- 7) on
- 8) into
- 9) with
- 10) through