LIQUIDATION
UNDER
CHAPTER 7
— WHO GETS WHAT —

General principles of liquidation:

- At the moment of filing, the debtor's non-exempt property becomes property of the bankruptcy estate.
- That property will then be liquidated – turned into cash – and distributed to creditors. The pre-petition debts will then be discharged.

Rules of distribution under Chapter 7:

- *FILL & SPILL:* Each entity in each category 1 thru 6, and in each subcategory ("priority") i thru x, must be paid in full before any entity in the next category or subcategory is paid anything.
- *CENTS ON THE DOLLAR:* If there is not enough to pay all the creditors of a category all amounts owed, but if there is enough to pay them something, then all creditors in that category receive a pro-rata share, often stated as so many "cents on the dollar" of the outstanding claim.

Order of distribution under Chapter 7:

AT THE OUTSET IS THE NON-ASSET QUASI-CATEGORY:

0. Secured, exempt, post-petition, and non-estate property[1]
    - Property securing the claims of secured creditors, to the extent of their security interest, after costs of sale (*see* §506, §541(d))
        - Unless invalid (*see* §522(f))
    - The debtor's exempt property (*see* state exemption statutes, §522)
    - Income earned or property acquired after filing (*see* §541(a))
    - Property held in trust for others (*see* §541(b))
    - Qualifying retirement funds, college-savings plans (*see* §541(b))
    - Property shielded by asset-protection trusts, fraternal-benefit societies

WHAT QUALIFIES AS PROPERTY OF THE ESTATE IS THEN DISTRIBUTED FILL-N-SPILL STYLE AS FOLLOWS:

1. Priorities under §507 (*see* §726(a)(1))
   in the following order
    - i. Domestic support obligations and certain administrative expenses of the estate (*see* §507(a)(1))
    - ii. Administrative expenses of the estate (*see* §507(a)(2))

[1] Anything that doesn't count as property of the estate is therefore not subject to distribution. Thus, this is not really a "category of distribution," but it may be helpful to think of it as analogous to such a category.

iii. Ordinary-course-of-business expenses in involuntary cases (*see* §507(a)(3))

iv. Wages earned within 180 days before filing (or cessation of business) up to about $10,000 per employee (*see* §507(a)(4))

v. Employee-benefit plan contributions incurred within 180 days before filing (or cessation of business), subject to a formula-prescribed cap (*see* §507(a)(5))

vi. Amounts owed to farmers and fishermen, up to about $4,000, by grain and fish buyers (*see* §507(a)(6))

vii. Consumer deposits, up to about $1,800, for undelivered services or property (*see* §507(a)(7))

viii. Taxes, subject to certain time limitations (*see* §507(a)(8))

ix. Amounts owed to the FDIC and the like by banks and other depository institutions (*see* §507(a)(9))

x. Personal injury or wrongful death damages from driving, boating, or flying while intoxicated (*see* §507(a)(10))

2. Allowed unsecured claims filed on time (or late but excused) (*see* §726(a)(2))
3. Allowed unsecured claims filed late (*see* §726(a)(3))
4. Fines, penalties, "multiple" damages, and punitive damages (*see* §726(a)(4))

THEN, THEORETICALLY, IF ANYTHING IS LEFT, THERE ARE TWO MORE CATEGORIES:

5. Interest on the claims in categories 1–5, above (*see* §726(a)(5))
6. Debtor takes the remainder (*see* §726(a)(6))