

Syllabus

NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States v. Detroit Timber & Lumber Co.*, 200 U. S. 321, 337.

SUPREME COURT OF THE UNITED STATES

Syllabus

SCHWAB *v.* REILLYCERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR
THE THIRD CIRCUIT

No. 08–538. Argued November 3, 2009—Decided June 17, 2010

Respondent Reilly filed for Chapter 7 bankruptcy when her catering business failed. She supported her petition with, *inter alia*, Schedule B, on which debtors must list their assets, and Schedule C, on which they must list the property they wish to reclaim as exempt. Her Schedule B assets included cooking and other kitchen equipment, to which she assigned an estimated market value of \$10,718. On Schedule C, she claimed two exempt interests in this “business equipment”: a “tool[s] of the trade” exemption for the statutory-maximum “\$1,850 in value,” 11 U. S. C. §522(d)(6); and \$8,868 under the statutory provisions allowing miscellaneous, or “wildcard,” exemptions up to \$10,225 in value. The claimed exemptions’ total value (\$10,718) equaled Reilly’s estimate of the equipment’s market value. Property claimed as exempt will be excluded from the bankruptcy estate “[u]nless a party in interest” objects, §522(l), within a certain 30-day period, see Fed. Rule Bkrcty. Proc. 4003(b). Absent an objection, the property will be excluded from the estate even if the exemption’s value exceeds what the Code permits. See, *e.g.*, §522(l); *Taylor v. Freeland & Kronz*, 503 U. S. 638, 642–643.

Although an appraisal revealed that the equipment’s total market value could be as much as \$17,200, petitioner Schwab, the bankruptcy estate’s trustee, did not object to the claimed exemptions because the dollar value Reilly assigned to each fell within the limits of §§522(d)(5) and (6). Schwab moved the Bankruptcy Court for permission to auction the equipment so Reilly could receive the \$10,718 she claimed exempt and the estate could distribute the remaining value to her creditors. Reilly countered that by equating on Schedule C the total value of her claimed exemptions in the equipment with the equipment’s estimated market value, she had put Schwab and

Syllabus

her creditors on notice that she intended to exempt the equipment's full value, even if it turned out to be more than the amounts she declared and that the Code allowed. She asserted that the estate had forfeited its claim to any portion of that value because Schwab had not objected within the Rule 4003(b) period, and that she would dismiss her petition rather than sell her equipment.

The Bankruptcy Court denied Schwab's motion and Reilly's conditional motion to dismiss. The District Court denied Schwab relief, rejecting his argument that neither the Code nor Rule 4003(b) requires a trustee to object to a claimed exemption where the amount the debtor declares as the exemption's value is within the limits the Code prescribes. Affirming, the Third Circuit agreed that Reilly's Schedule C entries indicated her intent to exempt the equipment's full value. Relying on *Taylor*, it held that Schwab's failure to object entitled Reilly to exempt the full value of her equipment, even though that value exceeded the amounts that Reilly declared and the Code permitted.

Held: Because Reilly gave "the value of [her] claimed exemption[s]" on Schedule C dollar amounts within the range the Code allows for what it defines as the "property claimed as exempt," Schwab was not required to object to the exemptions in order to preserve the estate's right to retain any value in the equipment beyond the value of the exempt interest. Pp. 6–23.

(a) Reilly's complicated view of the trustee's statutory obligation, and her reading of Schedule C, does not accord with the Code. Pp. 6–15.

(1) The parties agree that this case is governed by §522(l), which states that a Chapter 7 debtor must "file a list of property that the debtor claims as exempt under subsection (b) of this section," and that "[u]nless a party in interest objects, the property claimed as exempt on such list is exempt." Reilly asserts that the "property claimed as exempt" refers to all of the information on Schedule C, including the estimated market value of each asset. Schwab and *amicus* United States counter that because the Code defines such property as an interest, not to exceed a certain dollar amount, in a particular asset, *not* as the asset itself, the value of the property claimed exempt should be judged on the dollar value the debtor assigns the interest, *not* on the value the debtor assigns the asset. Pp. 6–9.

(2) Schwab and the United States are correct. The portion of §522(l) that resolves this case is not, as Reilly asserts, the provision stating that the "property claimed as exempt on [Schedule C] is exempt" unless an interested party objects. Rather, it is the portion that defines the objection's target, namely, the "list of property that

Syllabus

the debtor claims as exempt under subsection (b).” Section 522(b) does *not* define the “property claimed as exempt” by reference to the estimated market value. It refers only to property defined in §522(d), which in turn lists 12 categories of property that a debtor may claim as exempt. Most of these categories and all the ones applicable here define “property” as the debtor’s “interest”—up to a specified dollar amount—in the assets described in the category, *not* as the assets themselves. Schwab had no duty to object to the property Reilly claimed as exempt because its stated value was within the limits the Code allows. Reilly’s contrary view does not withstand scrutiny because it defines the target of a trustee’s objection based on Schedule C’s language and dictionary definitions of “property” at odds with the Code’s definition. The Third Circuit failed to account for the Code’s definition and for provisions that permit debtors to exempt certain property in kind or in full regardless of value. See, e.g., §522(d)(9). Schwab was entitled to evaluate the claimed exemptions’ propriety based on three Schedule C entries: the description of the business equipment in which Reilly claimed the exempt interests; the Code provisions governing the claimed exemptions; and the amounts Reilly listed in the column titled “value of claimed exemption.” This conclusion does not render Reilly’s market value estimate superfluous. It simply confines that estimate to its proper role: aiding the trustee in administering the estate by helping him identify assets that may have value beyond the amount the debtor claims as exempt, or whose full value may not be available for exemption. This interpretation is consistent with the historical treatment of bankruptcy exemptions. Pp. 9–15.

(b) *Taylor* does not dictate a contrary conclusion. While both *Taylor* and this case concern the consequences of a trustee’s failure to object to a claimed exemption within Rule 4003’s time period, *Taylor* establishes and applies the straightforward proposition that an interested party must object to a claimed exemption if the amount the debtor lists as the “value claimed exempt” is not within statutory limits. In *Taylor*, the value listed in Schedule C (“\$ unknown”) was not plainly within those limits, but here, the values (\$8,868 and \$1,850) are within Code limits and thus do not raise the warning flag present in *Taylor*. Departing from *Taylor* would not only ignore the presumption that parties act lawfully and with knowledge of the law; it would also require the Court to expand the statutory definition of “property claimed as exempt” and the universe of information an interested party must consider in evaluating an exemption’s validity. Even if the Code allowed such expansions, they would be ill advised. Basing the definition of “property claimed exempt,” and thus an interested party’s obligation to object under §522(l), on inferences that

Syllabus

party must draw from preprinted bankruptcy schedules that evolve over time, rather than on the facial validity of the value the debtor assigns the “property claimed as exempt” as defined by the Code, would undermine the predictability the statute is designed to provide. Pp. 16–18.

(c) Reilly’s argument threatens to convert the Code’s goal of giving debtors a fresh start into a free pass. By permitting a debtor “to withdraw from the estate certain interests in property, . . . up to certain values,” *Rousey v. Jacoway*, 544 U. S. 320, 325, Congress balanced the difficult choices that exemption limits impose on debtors with the economic harm that exemptions visit on creditors. This Court should not alter that balance by requiring trustees to object to claimed exemptions based on form entries beyond those governing an exemption’s validity under the Code. In rejecting Reilly’s approach, the Court does not create incentives for trustees and creditors to sleep on their rights. The decision reached here encourages a debtor wishing to exempt an asset’s full market value or the asset itself to declare the value of the claimed exemption in a way that makes its scope clear. Such declarations will encourage the trustee to object promptly and preserve for the estate any value in the asset beyond relevant statutory limits. If the trustee fails to object, or his objection is overruled, the debtor will be entitled to exclude the asset’s full value. If the objection is sustained, the debtor will be required either to forfeit the portion of the exemption exceeding the statutory allowance or to revise other exemptions or arrangements with creditors to permit the exemption. See Rule 1009(a). Either result will facilitate the expeditious and final disposition of assets, and thus enable the debtor and creditors to achieve a fresh start free of Reilly’s finality and clouded-title concerns. Pp. 19–22.

534 F. 3d 173, reversed and remanded.

THOMAS, J., delivered the opinion of the Court, in which STEVENS, SCALIA, KENNEDY, ALITO, and SOTOMAYOR, JJ., joined. GINSBURG, J., filed a dissenting opinion, in which ROBERTS, C. J., and BREYER, J., joined.