Congressional Research Service

Fund for "Gifts to the United States for Reduction of the Public Debt": Current Law and Proposed Legislation

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November 16, 2011

Congressional Research Service
7-5700
www.crs.gov
R42088

Introduction

The reduction of the federal public debt is regarded as an important goal by many taxpayers. The Congressional Budget Office (CBO) presents the long-term budget outlook under two scenarios.[1] First, the *extended-baseline scenario* adheres closely to current law and assumes that "many adjustments that law-makers have routinely made in the past—such as changes to the AMT [alternative minimum tax] and to the Medicare program's payments to physicians—will be made again."[2] Under this extended-baseline scenario, federal debt held by the public would rise from 69% of GDP (gross domestic product) in FY2011 to 84% of GDP in FY2035.[3] Second, the "*alternative fiscal scenario* embodies several changes to current law that would continue certain tax and spending policies that people have grown accustomed to."[4] Under this scenario, federal debt held by the public would rise from 69% of GDP in FY2011, to more than 100% of GDP in FY2021, and nearly 190% of GDP in FY2035.[5]

Under current law, an individual may make a contribution to reduce the national debt either online or by check payable to the Bureau of the Public Debt.[6] Contributions may be taken as a charitable contribution deduction by taxpayers who itemize. These contributions are deposited in a Treasury fund titled "Gifts to the United States for Reduction of the Public Debt," subsequently referred to in this report as the "Public Debt Reduction Fund."[7]

Four bills have been introduced in the 112th Congress to add another method of making a contribution to reduce the national debt. These bills would permit taxpayers to designate a donation on their tax returns or their Form W-4. An employee completes Form W-4 in order for the employer to withhold the correct federal income tax form the employee's pay.

In order to evaluate these bills, this report describes current law for the Public Debt Reduction Fund and discusses proposed legislation. The amounts of contributions by fiscal year to the Public Debt Reduction Fund are listed in an **Appendix**.

Current Law for Public Debt Reduction Fund

On June 27, 1961, H.R. 311, *An Act to authorize the acceptance by Government of gifts to be used to reduce the public debt*, was signed as P.L. 87-58. This law included the following excerpts.

> The Secretary of the Treasury is authorized to accept on behalf of the United States (1) any gift of money made on the sole condition that it be used to reduce the public debt of the

[1] Congressional Budget Office, *CBO's 2011 Long-Term Budget Outlook*, June 2011, 94 p. For comprehensive explanations of these scenarios, the reader is referred to this CBO report.

[2] Ibid., p. 2.

[3] Ibid., p. x.

[4] Ibid., p. 2.

[5] Ibid., p. 7.

[6] Some of the material in this report is from CRS Report RS20092, *Public Debt Reduction Fund*, by Pamela J. Jackson.

[7] For information about the national debt, see CRS Report R41815, *Overview of the Federal Debt*, by D. Andrew Austin.

> United States, (2) any gift of obligations of the United States, if made on the sole condition that the obligations be canceled and retired and not reissued, or (3) any gift of other intangible personal property made on the sole condition that it be sold, and the proceeds realized from the sale be used to reduce the public debt of the United States.
>
> The Administrator of General Services is authorized to accept on behalf of the United States any gift of other property, real or personal, made to the United States on the sole condition that it be sold and the proceeds realized from the sale be used to reduce the public debt of the United States....
>
> If under applicable law any gift accepted under the first section of this Act is subject to a gift or inheritance tax, the Secretary of the Treasury or the Administrator of General Services, as the case may be, is authorized to pay such tax out of the proceeds of such gift, or the proceeds of the redemption or sale of such gift, as the case may be.
>
> There is hereby established on the books of the Treasury a special account into which shall be deposited all money received as gifts under this Act and all money received as a result of the conversion into money of gifts of property other than money received under this Act. The Secretary of the Treasury shall from time to time utilize the money in the special account for the payment at maturity or the redemption or purchase before maturity of any obligations of the United States included in the public debt of the United States.[8]

Contributions donated to the Public Debt Reduction Fund qualify as charitable donations and can be taken as deductions by those who itemize.

Each calendar quarter, amounts that have been donated to the Public Debt Reduction Fund are transferred to the Public Debt Redemption Account. Thus, the federal government borrows less than it would have absent the donations and the size of the federal debt is reduced.

Contributions to the Public Debt Reduction Fund since FY1996 are listed in the **Appendix**. For FY2011, contributions totaled $3,277,369.23.[9] For the two prior fiscal years, the amounts of contributions were $2,840,466.75 (FY2010) and $3,063,057.05 (FY2009).[10] In each of the last three fiscal years, contributions were higher than in any of the prior 13 fiscal years, but arguably the amounts were low in relationship to the size of the national debt.

Proposed Legislation in the 112th Congress

In the 112th Congress, four bills have been introduced to add a new method to allow contributions to the Public Debt Reduction Fund.

Current Contribution Methods

There are two methods of contributing to the Public Debt Reduction Fund. The first method is indicated in IRS instructions for Form 1040 and the Treasury website called treasurydirect.gov.

[8] This law is now included in 31 U.S.C. 3113.

[9] U.S. Treasury, TreasuryDirect, "Gift Contributions to Reduce Debt Held by the Public," p. 1.

[10] Ibid.

For 2010, the Instructions for Form 1040 stated the following:

> **How Do You Make a Gift To Reduce Debt Held By the Public?** If you wish to do so, make a check payable to "Bureau of the Public Debt." You can send it to: Bureau of the Public Debt, Department G, P.O. Box 2188, Parkersburg, WV 26106-2188. Or you can enclose the check with your income tax return when you file.[11]

The second method is specified on the treasurydirect.gov site under the topic "Frequently Asked Questions about the Public Debt."[12] This site states that "You can make a contribution online either by credit card, checking or savings account at Pay.gov."[13] Clicking on Pay.gov brings up a donor information form that allows the individual to make an online donation.

Bills with Designation of Contribution

In the 112th Congress, four bills have been introduced with a new method of contributing to the Public Debt Reduction Fund: designating a contribution on a tax return or Form W-4.

Representative Steve Stivers introduced H.R. 2214, *Debt Elimination by Tax-Deductible Contribution Act of 2011*, which would amend "the Internal Revenue Code to allow taxpayers to designate a specified portion (not less than $1) of their income tax liability for deposit in the general fund of the Treasury to reduce the public debt." The designation of the donation "shall be made either on the first page of the return or on the page bearing the taxpayer's signature." This bill did not propose that a box be included on the tax form. This bill had 103 cosponsors. Representative Eric A. Crawford introduced H.R. 2411, *Reduce America's Debt Now Act of 2011*, which has 12 cosponsors. This bill would allow "for an employee election on Form W-4 to have amounts deducted and withheld from wages to be used to reduce the public debt." Unlike the other three proposed bills, donations would "not be deductible as charitable contributions for federal income tax purposes."

In August 2011, Warren Buffett published an op-ed in the *New York Times* in which he argued that the "rich" pay too low of marginal tax rates on income, and stated that he would like to "raise rates immediately on taxable income in excess of $1 million, including, of course, dividends and capital gains."[14] Subsequently, the Obama Administration released a new economic plan titled *Living Within Our Means and Investing in the Future*.[15] One of the plan's five principles for tax reform states the following:

> Observe the Buffett Rule. No household making over $1 million annually should pay a smaller share of its income in taxes than middle-class families pay. As Warren Buffett has pointed out, his effective tax rate is lower than his secretary's. No household making over $1 million annually should pay a smaller share of its income in taxes than middle-class families

[11] Internal Revenue Service, *Instruction for Form 1040 for 2010*, 2011, p. 88.

[12] U.S. Treasury, TreasuryDirect, "Frequently Asked Questions about the Public Debt," p. 2. Available at http://www.treasurydirect.gov/govt/resources/faq/faq_publicdebt.htm, visited October 31, 2011.

[13] Ibid.

[14] Warren E. Buffett, "Stop Coddling the Super-Rich," op-ed, *New York Times*, August 14, 2011, p. A19.

[15] Office of Management and Budget, *Living Within Our Means and Investing in the Future*, September 2011, 67 pp.

> pay. This rule will be achieved as part of an overall reform that increases the progressivity of the tax code.[16]

Senator Harry Reid introduced the *American Jobs Act of 2011*, S. 1660, which contained a 5.6% surtax on millionaires to pay for the provisions of the jobs bill.[17]

In October 2011, Republicans in the House and Senate offered their alternative to the "Buffett Rule:" donations via individual income tax forms to reduce the debt.[18] Two companion bills, S. 1676 and H.R. 3099 (*Buffett Rule Act of 2011*), were introduced and stated that the designation of the donation "shall be either on the first page of the return or on the page bearing the taxpayer's signature" and "shall be by a box added to the return." H.R. 3099 was introduced by Representative Steve Scalise and has 18 cosponsors. S. 1676 was introduced by Senator John Thune and has 36 cosponsors.

Senator John Thune issued a press release that stated,

> This bill would make it easier for those wealthy individuals who feel they are currently under-taxed to pay more to the U.S. Treasury above and beyond their current obligations, without raising taxes on America's job creators.[19]

Analysis of Proposed Legislation

As previously indicated, all four bills would permit taxpayers to designate a contribution on their tax returns or Form W-4, and the designation option for a contribution to be printed on the tax return or Form W-4. In addition, two bills, S. 1676 and H.R. 3099, would require that a box be added to the tax return.

These proposed bills would make the taxpayers more aware of their opportunity to make a contribution to reduce the national debt and permit the taxpayer to design a contribution on their tax returns. Arguably, each of these bills would increase taxpayers' donations, but the amount of the increase is unknown.

In the past, the Department of the Treasury has resisted the addition of non-tax-related items to tax forms. This opposition is based upon the Treasury's judgment that additional requested information makes the tax forms appear more difficult. A long-term goal of the Treasury has been to make tax forms easier to understand and fill out. Over the years, the Treasury has successfully opposed the addition of checkoff boxes to tax forms. Currently, the only checkoff box is for the "Presidential Election Campaign Checkoff Fund."

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[16] Ibid., p. 46.

[17] For an analysis of the "Buffett Rule," see CRS Report R42043, *An Analysis of the "Buffett Rule"*, by Thomas L. Hungerford.

[18] "GOP Offers Its Own 'Buffett Rule': Box on Tax Forms for Donations from Wealthy," *Daily Tax Report*, October 13, 2011, p. G10.

[19] Office of Senator John Thune, Press Release on "The Buffett Rule Act of 2011," October 12, 2011, p. 1.

Appendix. Gift Contributions to Reduce the National Debt

Table A-1. Gift Contributions to Reduce the National Debt

Fiscal Year	Amount Contributed
2011	$3,277,369.23
2010	$2,840,466.75
2009	$3,063,057.05
2008	$2,189,358.89
2007	$2,624,862.42
2006	$1,646,209.41
2005	$1,455,541.65
2004	$ 664,911.25
2003	$1,277,423.40
2002	$ 744,675.06
2001	$1,645,082.28
2000	$1,868,891.93
1999	$1,457,510.59
1998	$1,535,541.02
1997	$ 955,897.15
1996	$1,985,175.10

Source: U.S. Treasury, TreasuryDirect, "Gift Contributions to Reduce Debt Held By the Public," p. 1.

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