**Money Creation, Circulation, & Redemotion**

U.S. Money Creation and Circulation

**Money Creation:** The U.S. government creates lawful money through the issuance of coins and currency by the United States Treasury, **not the Federal Reserve System**. This includes gold and silver coins, Treasury notes, and Treasury bonds.

**Circulation:** Federal Reserve notes, although widely used, are not considered lawful money. Instead, they are considered fiat money, which is not backed by reserves and has no intrinsic value. However, Federal Reserve notes are legal tender and can be exchanged for an equivalent amount of lawful money.

**Redemption:** According to the United States Currency Code (Title 12 banking codes), individuals can redeem lawful money on Form 1040, specifically on Schedule 1: Additional Income, line 21. To do so, enter the entire income for the year as a negative number. This demand for lawful money is written on line 21.

It’s essential to note that the IRS form 1040 has undergone changes. Previously, on the second page, line 6, income was entered as a negative number in parentheses ($). Currently, the process remains similar, albeit with a slight modification.

Key Takeaways:

Lawful money is issued by the U.S. Treasury, not the Federal Reserve System.

Federal Reserve notes are fiat money, not lawful money, but are legal tender.

Individuals can redeem lawful money on Form 1040, Schedule 1: Additional Income, line 21, by entering the entire income for the year as a negative number.

Additional Context: The U.S. Constitution specifies gold and silver as the legal form of tender for debts. The 1933 amendment to the Federal Reserve Act declared all U.S. coins and currency as legal tender to avoid confusion about permissible forms of payment. Despite this, the dollar bills in circulation are not considered lawful money, as they are issued by the Federal Reserve, not the Treasury.

**Printing green**

<https://www.cato.org/publications/commentary/how-federal-reserve-literally-makes-money>

It is common to hear people say the Fed prints money.

That’s not technically correct. The Bureau of Engraving and Printing, an agency of the U.S. Treasury, does the printing. The Fed, for its part, purchases cash from the bureau at cost and then puts it in circulation.

The Fed does not print money to buy assets because it does not have to. It can create money with a mere keystroke.

So as the Fed buys Treasuries, mortgage-backed securities, corporate debt and other assets over the coming weeks and months, money will rarely change hands. It will just move from one account to another.

**US Money Creation Explained**:

In the United States, money is created as a form of debt. The process involves the Federal Reserve, commercial banks, and the government. Here’s a breakdown:

Federal Reserve: The Fed creates money by purchasing treasury bonds from banks. This injects liquidity into the system, allowing banks to increase their lending capacity. The Fed’s actions effectively increase the money supply.

Commercial Banks: **Banks create money by making loans to individuals and businesses**. When a bank grants a loan, it credits the borrower’s account, effectively creating new money. This new money is known as bank deposits, which account for approximately 97% of the money in the economy.

Government: The government issues treasury bonds to finance its activities, which are then purchased by the Federal Reserve. This process adds to the money supply, as the Fed’s holdings of treasury bonds are considered part of the broader money stock.

Key Points

The treasury does not simply print cash; instead, the government issues debt in the form of treasury bonds.

Before the widespread use of debt-based money, the US monetary system was backed by gold and silver, with each dollar representing a specific amount of precious metal.

The majority of money in the economy (97%) exists as bank deposits, while only 3% is physical cash.

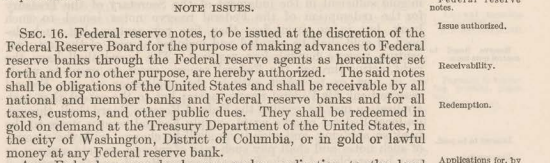
Note: The intricate process of engraving currency, mentioned in one of the search results, is a separate aspect of currency production, focusing on the design and printing of physical banknotes. This process is distinct from the creation of money as debt, which is the primary mechanism in the United States.

12 U.S. Code § 411 - Issuance to reserve banks; nature of obligation; redemption

U.S. Code: Federal reserve notes, to be issued at the discretion of the Board of Governors of the Federal Reserve System for the purpose of making advances to Federal reserve banks through the Federal reserve agents as hereinafter set forth and for no other purpose, are authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve bank.

(Dec. 23, 1913, ch. 6, § 16 (par.), **38 Stat. 265**; Jan. 30, 1934, ch. 6, § 2(b)(1), 48 Stat. 337; Aug. 23, 1935, ch. 614, title II, § 203(a), 49 Stat. 704.)

<https://www.govinfo.gov/content/pkg/STATUTE-38/pdf/STATUTE-38-Pg251-2.pdf#page=15>



NOTE: They shall be “obligation of the United States” and “SHALL BE REDEEMED IN GOLD ON DEMAND at THE TREASURY DEPT…”

**Lawful Money Tax Form Definition**

Lawful money refers to currency issued by the United States Treasury, such as gold and silver coins, Treasury notes, and Treasury bonds. In contrast, fiat money, including Federal Reserve notes, is not considered lawful money. The United States Constitution specifies gold and silver as the legal form of tender for debts.

**Tax Implications**

When it comes to tax forms, lawful money is relevant in the context of refunding taxes paid in Federal Reserve notes. According to the Federal Reserve Act, Federal Reserve notes “shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues.” (12 USC 411)

**Demand for Lawful Money**

To redeem taxes paid in Federal Reserve notes, individuals can demand lawful money (gold or silver coins) from the Treasury Department or a Federal Reserve bank. This process is outlined in the Federal Reserve Act and is intended to ensure that the government honors its obligations in lawful money.

**Tax Form 1040**

For tax purposes, individuals can use Form 1040 to claim a refund in lawful money. The form requires reporting income and taxes paid, including the demand for lawful money redemption. According to some sources, including the Lawful Money Trust, it is possible to complete a 1040 tax form to redeem taxes paid in Federal Reserve notes for lawful money.

**CPA Involvement**

For those seeking to complete a lawful money tax return, it may be beneficial to consult with a Certified Public Accountant (CPA) who is familiar with this process. **The Lawful Money Trust** and other resources provide guidance on how to work with CPAs to complete these specialized tax returns.

**Key Takeaways**

Lawful money refers to currency issued by the United States Treasury, such as gold and silver coins, Treasury notes, and Treasury bonds.

Federal Reserve notes are not considered lawful money.

The Federal Reserve Act allows for the redemption of taxes paid in Federal Reserve notes for lawful money.

Form 1040 can be used to claim a refund in lawful money, and consulting with a CPA familiar with this process may be beneficial.

**Additional Resources**

Lawful Money Trust: A community of individuals seeking to redeem taxes paid in Federal Reserve notes for lawful money, with resources and guidance on completing tax returns.

Federal Reserve Act: The legislation authorizing the Federal Reserve System and outlining the redemption process for Federal Reserve notes.

IRS Form 1040: The standard individual income tax return form, which can be used to claim a refund in lawful money.

**Who Issues “Lawful Payments?”:** 13 Stat 99 clarifies the ONLY the Treasury Sec and the Comptroller of the Currency can issue, circulate, and redeem” lawful payment. NOT THE FEDERAL RESERVE OR IRS.

