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Legal Tender Status

I thought that United States currency was legal tender for all debts. Some businesses or governmental agencies say that they will only accept checks, money orders or credit cards as payment, and others will only accept currency notes in denominations of \$20 or smaller. Isn't this illegal?

The pertinent portion of law that applies to your question is the Coinage Act of 1965, specifically Section 31 U.S.C. 5103, entitled "Legal tender," which states: "United States coins and currency (including Federal reserve notes and circulating notes of Federal reserve banks and national banks) are legal tender for all debts, public charges, taxes, and dues."

This statute means that all United States money as identified above are a valid and legal offer of payment for debts when tendered to a creditor. There is, however, no Federal statute mandating that a private business, a person or an organization must accept currency or coins as for payment for goods and/or services. Private businesses are free to develop their own policies on whether or not to accept cash unless there is a State law which says otherwise. For example, a bus line may prohibit payment of fares in pennies or dollar bills. In addition, movie theaters, convenience stores and gas stations may refuse to accept large denomination currency (usually notes above \$20) as a matter of policy.

What are Federal Reserve notes and how are they different from United States notes?

Federal Reserve notes are legal tender currency notes. The twelve Federal Reserve Banks issue them into circulation pursuant to the Federal Reserve Act of 1913. A commercial bank belonging to the Federal Reserve System can obtain Federal Reserve notes from the Federal Reserve Bank in its district whenever it wishes. It must pay for them in full, dollar for dollar, by drawing down its account with its district Federal Reserve Bank.

Federal Reserve Banks obtain the notes from our [Bureau of Engraving and Printing](#) (BEP). It pays the BEP for the cost of producing the notes, which then become liabilities of the Federal Reserve Banks, and obligations of the United States Government.

Congress has specified that a Federal Reserve Bank must hold collateral equal in value to the Federal Reserve notes that the Bank receives. This collateral is chiefly gold certificates and United States securities. This provides backing for the note issue. The idea was that if the Congress dissolved the Federal Reserve System, the United States would take over the notes (liabilities). This would meet the requirements of Section 411, but the government would also take over the assets, which would be of equal value. Federal Reserve notes represent a first lien on all the assets of the Federal Reserve Banks, and on the collateral specifically held against them.

Federal Reserve notes are not redeemable in gold, silver or any other commodity, and receive no backing by anything. This has been the case since 1933. The notes have no value for themselves, but for what they will buy. In another sense, because they are legal tender, Federal Reserve notes are "backed" by all the goods and services in the economy.

What are United States Notes and how are they different from Federal Reserve notes?

United States Notes (characterized by a red seal and serial number) were the first national currency, authorized by the Legal Tender Act of 1862 and began circulating during the Civil War. The Treasury Department issued these notes directly into circulation, and they are obligations of the United States Government. The issuance of United States Notes is subject to limitations established by Congress. It established a statutory limitation of \$300 million on the amount of United States Notes authorized to be outstanding and in circulation. While this was a significant figure in Civil War days, it is now a very small fraction of the total currency in circulation in the United States.

Both United States Notes and Federal Reserve Notes are parts of our national currency and both are legal tender. They circulate as money in the same way. However, the issuing authority for them comes from different statutes. United States Notes were redeemable in gold until 1933, when the United States abandoned the gold standard. Since then, both currencies have served essentially the same purpose, and have had the same value. Because United States Notes serve no function that is not already adequately served by

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Federal Reserve Notes, their issuance was discontinued, and none have been placed in to circulation since January 21, 1971.

The Federal Reserve Act of 1913 authorized the production and circulation of Federal Reserve notes. Although the [Bureau of Engraving and Printing](#) (BEP) prints these notes, they move into circulation through the Federal Reserve System. They are obligations of both the Federal Reserve System and the United States Government. On Federal Reserve notes, the seals and serial numbers appear in green. United States notes serve no function that is not already adequately served by Federal Reserve notes. As a result, the Treasury Department stopped issuing United States notes, and none have been placed into circulation since January 21, 1971.



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