



The Presidential Election Campaign Fund: A Voluntary Tax That Stirs Little Enthusiasm

Fiscal Fact No. 130

by **Mark Robyn**

June 20, 2008

Senator Obama's abandonment of public financing for the presidential election is a first since the public funds were set up, and it refocuses attention on the concept and implementation of public financing.

Congress has been using the IRS for years to squirrel money away for presidential campaigns. The program is called the Presidential Election Campaign Fund, and little noticed by taxpayers, the Fund has been distributing millions of dollars to presidential candidates on a regular basis.

What is the Presidential Election Campaign Fund?

On the 1040 form, nestled between one's address and filing status, is a box marked "Presidential Election Campaign." A brief explanation on the 1040 directs taxpayers to check the box if they want \$3 of their tax payments to go into this fund (\$6 for couples). Taxpayers are assured that they are not paying extra if they check the box.

Despite this (dubious) assurance that the "contribution" costs the taxpayer nothing, only about 12 percent of taxpayers put a check in that box. Explanations for low participation boil down to four main arguments:

- *Taxpayers are angry about the tax code in general.* Perhaps the mood of average tax filers in the middle of a 1040 is not kindly disposed to the politicians responsible for the confusing, expensive income tax code.
- *Taxpayers oppose public funding of political campaigns in principle.* Some taxpayers may appreciate their lawmakers but still believe that politicians should fund their own careers.

- *Taxpayers have little or no idea what the Presidential Election Campaign Fund really is.* Tax filers running across an optional, poorly explained line on their already complicated returns might skip it without a second thought.
- *Taxpayers disbelieve the assurance that the Presidential Election Campaign Fund will not cost them extra.* Tax filers may believe that every \$3 in public money has to come from somewhere.

If a 1040 filer is interested enough to learn more, a blurb in the 1040 instructions explains, "This fund helps pay for Presidential election campaigns. The fund reduces candidates' dependence on large contributions from individuals and groups and places candidates on an equal financial footing in the general election."

The Presidential Election Campaign Fund is indeed designed to level the playing field for candidates. To this end, the PECF provides candidates with public funding for their presidential primary campaigns and their general election campaigns. For primaries, the PECF works by matching individual donors' contributions dollar for dollar up to a limit. Only contributions from individuals are eligible for matching, and the limit is \$250 per individual. This limit should not be confused with an individual's limit on total contributions to a candidate, which is currently set at \$2,300 per election. In other words, an individual is allowed to contribute a maximum of \$2,300 to a candidate's primary election fund, but only the first \$250 would be matched by the PECF.

A candidate seeking his or her party's presidential nomination must also meet certain qualifications in order to receive public funds. A candidate must raise at least \$5,000 in 20 different states and must agree to an overall campaign spending limit as well as various spending limits in each state. For 2008, the overall spending limit for primaries is just over \$42 million.

General elections work differently. Federal funding is given in the form of direct grants rather than by matching contributions from individuals. In fact, a candidate who wishes to receive public funding for a general election campaign generally cannot accept any contributions from individuals. One exception to this rule is for contributions to a candidate's compliance fund, which is used to pay for certain legal and accounting expenses incurred to comply with Federal Election Commission regulations and relevant campaign finance legislation. Such contributions are subject to the \$2,300 limit. For candidates receiving federal funds, the overall spending limit for general elections is just over \$84 million. If a candidate is not federally funded, an individual's contribution to that candidate's general election fund is still subject to the regular \$2,300 limit.

Taxpayer Participation

In both the primaries and general elections, the federal funds come from the tax payments of filers who voluntarily check off the box on their 1040. As noted above, the vast majority of filers do not check the box. When the PECF was first established in the 1970s, the participation rate hovered around 27 percent of filers. Since then, participation has been steadily declining.

If PECF participation is broken down by adjusted gross income (AGI) an interesting trend emerges. As AGI increases, the percentage of returns electing to contribute to the PECF

increases (see Table 1). In the lowest range, taxpayers with less than \$10,000 in AGI, fewer than 10 percent checked the box in 2004. In the highest income group reported by the IRS, those with an AGI of \$10 million or more, 23 percent contributed. This is still not especially high, but it is curious. Why the difference?

Table 1
Federal Tax Returns Participating in the PECF Program by Adjusted Gross Income
2004

AGI Group	Returns Electing to Give at Least \$3*	Total Number of Returns	Percent of Returns Electing to Contribute at Least \$3
Under \$10,000	2,508,016	25,476,123	9.84%
\$10,000 to \$20,000	2,796,991	23,169,070	12.07%
\$20,000 to \$30,000	2,083,853	18,025,856	11.56%
\$ 30,000 to \$40,000	1,589,707	13,922,755	11.42%
\$ 40,000 to \$50,000	1,260,157	10,599,289	11.89%
\$ 50,000 to \$75,000	2,328,757	18,247,472	12.76%
\$ 75,000 to \$100,000	1,383,957	10,009,700	13.83%
\$ 100,000 to \$200,000	1,702,950	9,761,383	17.45%
\$ 200,000 to \$500,000	436,238	2,340,905	18.64%
\$ 500,000 to \$1,000,000	85,294	433,315	19.68%
\$1,000,000 to \$1,500,000	20,591	103,939	19.81%
\$1,500,000 to \$2,000,000	8,908	45,095	19.75%
\$2,000,000 to \$5,000,000	13,037	65,500	19.90%
\$5,000,000 to \$10,000,000	3,448	15,832	21.78%
\$10,000,000 or more	2,245	9,662	23.23%

*Joint filers can contribute up to \$6 per return.

Note: Tax filers with no tax liability (almost one third of all tax returns) often check the box, but that does not cause a transfer into the PEFC, so fund balances are considerably lower than these check-off data suggest.

Source: IRS public use file, 2004, and Tax Foundation calculations

There are many possibilities, but two that seem likely are that people with high incomes believe politicians and elections will be more honest if the government funds elections, and lower-income people are suspicious that contrary to the assurance on the 1040, checking the box will cost them more.

In the end, it is possible that while checking the box does not increase one's taxes this year, it might increase them next year, or at least require one's neighbor to pay the extra \$3 instead. For low-income filers, those for whom every dollar counts, this might seem a good reason not to check the box.

Despite the increase in participation among higher-income taxpayers, the overall participation is still rather low, averaging just over 12 percent since 2000. This is a good indication that most people either don't understand the Presidential Election Campaign Fund or understand it but do not think it is a worthy cause for their tax dollars to support.

© 2008 Tax Foundation

Tax Foundation
2001 L Street NW, Suite 1050
Washington, DC 20036
Ph: (202) 464-6200
Fax: (202) 464-6201
www.taxfoundation.org