What happens when your expenses are greater than your income? If you don’t have savings to make up the difference and it happens for a sustained period of time, you could end up with quite a bit of debt. This can happen to individuals, families, businesses, communities, or even large governments (such as the United States).

The U.S. government’s debt has been increasing over the years (see the boxed insert “U.S. Government Debt to the Penny”). You can think of the U.S. debt as being an accumulation of years of budget deficits. With only a blip of budget surpluses between 1998 and 2001 and the relatively small surpluses in 1960 and 1969, the United States has run budget deficits each year since 1958. Budget deficits occur when the government’s expenses are greater than its income. In 2016, the U.S. budget deficit was $584 billion.

There are reasons why a country might have a budget deficit. For example, if the country’s economy is in recession, many people who would ordinarily pay income tax may have lost their jobs—and their incomes. The loss of income tax revenue reduces the government’s income. At the same time, people who have lost their jobs during a recession will request aid from the government, such as unemployment compensation or food stamps (through the Supplemental Nutrition Assistance Program [SNAP]). Such help becomes added expenses for the government.

If the economy of the country is strong, but the country still maintains a budget deficit, then the country is either spending too much or taxing too little. In the United States, spending and taxing decisions are made by our representatives in Congress. Decisions to raise taxes are difficult because it means that after paying their taxes, people will have less of their money available to buy the goods and services they want. However, decisions to cut spending are also difficult because it means that people will have fewer...
government-provided programs they want or enjoy, such as national parks, museums, unemployment compensation, or health care.

While Congress grapples with issues of spending and taxing, it is up to those who work in government to be watchful stewards of government spending and revenue. The U.S. Department of the Treasury plays the largest role in managing the finances of the federal government. Among its many financial functions, the Treasury collects taxes, duties, and monies paid to and due to the United States; pays all bills of the United States; and raises money to finance government operations through the sale of Treasury securities. One way it collects money owed to the federal government is through the Treasury Offset Program (TOP), which is operated by the Bureau of the Fiscal Service. While TOP benefits the federal government, it also benefits state governments and individuals.

### How an Offset Works

An offset is the reduction or withholding of a payment. An offset may be used to help an individual pay off money they owe to the government or an individual. There are several circumstances when TOP may initiate an offset, and most offsets are from federal tax refunds.

When workers are paid, part of their wages are withheld to pay federal income tax. Each year, workers send a tax return to the federal government reporting their gross income and the amount of their income that was withheld that year and sent to the government to pay their taxes. A tax return includes information about the worker’s number of dependents, child-care payments, and/or savings in a retirement plan. This and other financial information as well as the worker’s income determine how much income tax the worker owes. If the total amount withheld from the worker’s paycheck is less than what the worker owes, the worker will have to pay the government more. If the total amount withheld is enough, the worker will not owe additional taxes. If the worker paid more than necessary, the worker is eligible for a refund. If the worker owes taxes to the federal government or a state or money for child support, an offset could occur.

### Child Support and TOP

For example, suppose someone is owed a tax refund but that person is also a parent who has been ordered to pay child support and has not been faithful in making those payments. TOP, through the U.S. Department of the Treasury, Bureau of the Fiscal Service, can collect the child support from the delinquent parent by withholding all or part of the parent’s income tax refund. The Treasury office sends the money to the Office of Child Support Enforcement, which forwards the money to the child support agency in the state where the child lives. That office then sends the money to the custodial parent.

### The Supplemental Nutrition Assistance Program (SNAP) and TOP

This cooperation between states and the federal government extends to other programs. For example, people who have received SNAP benefits greater than the amount they were eligible to receive will either have future benefits reduced or, if they are no longer receiving

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**U.S. Government Debt to the Penny**

<table>
<thead>
<tr>
<th>Data date</th>
<th>Total public debt outstanding</th>
<th>Debt held by the public</th>
<th>Intragovernmental holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/6/2017</td>
<td>$19,844,332,397,358.53</td>
<td>$14,411,300,801,153.53</td>
<td>$5,433,031,596,205.00</td>
</tr>
</tbody>
</table>


As of September 6, 2017, the U.S. total public debt outstanding was over $19 trillion. About $14.4 trillion is debt held by the public, which consists of federal debt held by individuals, local governments, corporations, and other entities, and about $5.4 trillion is debt held within the government, such as money for federal government employee defined-benefit retirement funds.

SNAP benefits, have to pay the money back. TOP will intercept all or part of any tax refunds due to people who owe money to SNAP and redirect it to the states that issued the SNAP benefits.

**Unemployment Compensation and TOP**

Individuals who have lost their job through no fault of their own are usually eligible to receive unemployment compensation. There are rules that these individuals must follow. One rule is that people who are receiving unemployment compensation must report any earnings they receive from any kind of work. The amount someone can earn while still receiving benefits varies by state. When someone receives earnings but does not report them, that person is breaking his or her agreement with the state’s unemployment office. If such activity is discovered, the state will ask that the excess money received be returned. If the state cannot collect this money from individuals who understated their earnings, the federal tax refunds (if any) of those individuals will be redirected to the state’s unemployment office.

**State Income Tax and TOP**

After collections for child support, the next-highest collections by TOP are for state income taxes. TOPS cross-checks to see whether individuals or businesses who are delinquent in paying their state income taxes are due a federal tax refund. If they are, the refund is diverted in whole or in part to the state. In fiscal year (FY) 2016, New York was the largest beneficiary of this program, with nearly $82 million returned to the state, followed by Maryland with nearly $60 million.

In just 16 years, TOP has grown from collecting a little over $2.6 billion in FY 2000 to more than $7 billion in FY 2016 (see Figure 1).

The states receive enormous benefits from TOP. For example, in FY 2016, $33.4 million was returned to Arkansas, with more than half ($18.3 million) in recovered child support. In FY 2015, California was refunded a whopping $441.6 million, with $197.5 million in collections for fraudulent unemployment compensation claims.

Illinois augmented its revenue by $110.5 million in FY 2016 by participating in TOP (see Figure 2).

Each state, Washington D.C., and the territories of Puerto Rico, Guam, and the U.S. Virgin Islands participate in the program. Of the $7 billion collected in FY 2016, the total collections directed to the states were over $3 billion.
Nine states participate in all five of the TOP state programs: the Child Support Program; the State Income Tax Program; SNAP; the Unemployment Insurance Program; and the State Reciprocal Program, which is a program that sends the money in the opposite direction—from a state to the federal government (see Figure 3 and the table). States participating in the reciprocal program essentially support taxpayers by diverting refunds that would go to individuals and corporations that owe money to the federal government.

**Conclusion**

The federal government and some state governments run budget deficits. Persistent budget deficits can become burdensome debt. The Treasury Offset Program provides revenue for the federal government and state governments that can augment their budgets. In addition, the program helps taxpayers by forcing individuals and corporations with delinquent taxes to pay their fair share, and it helps custodial parents and guardians receive support to help raise the children in their charge.

**Notes**


Figure 3
Total of All TOP Programs: Fiscal Year 2016 (dollar amounts in millions)

<table>
<thead>
<tr>
<th>Program</th>
<th>Participation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child Support Program</td>
<td>54</td>
<td>$1,879.7</td>
</tr>
<tr>
<td>Income Tax Program</td>
<td>42</td>
<td>$802.2</td>
</tr>
<tr>
<td>SNAP</td>
<td>53</td>
<td>$162.1</td>
</tr>
<tr>
<td>State Reciprocal</td>
<td>12</td>
<td>$61.5</td>
</tr>
<tr>
<td>Compensation</td>
<td>44</td>
<td>$403.2</td>
</tr>
<tr>
<td><strong>Total - All Programs</strong></td>
<td><strong>1</strong></td>
<td><strong>$1,088.6</strong></td>
</tr>
</tbody>
</table>

NOTE: Participation refers to the number of states and territories in the given program. State Reciprocal refers to a program where states collect debts due to the federal government. For example, the state might offset an individual’s state income tax refund to pay all or part of that individual’s federal income tax debt. The Income Tax Program recovers state income tax.


After reading the article, complete the following:

1. When a country’s economy is in recession, will each of the following go up or down? Circle the correct answers.
   a. Employment ↑ ↓
   b. Unemployment ↑ ↓
   c. Incomes ↑ ↓
   d. Income tax revenue ↑ ↓
   e. Unemployment compensation ↑ ↓
   f. SNAP benefits ↑ ↓

2. What are two reasons why a country’s economy might have a budget deficit even when the economy is strong?

3. What are some of the financial functions of the U.S. Department of the Treasury?

4. How does the Treasury Offset Program (TOP) correct delinquent child support?

5. How does TOP recover overpayments in unemployment compensation? How might overpayments occur?

6. By how many dollars and what percentage has TOP grown since FY 2000?
7. Use the graphs of TOP collections for Missouri, Arkansas, Kentucky, and Tennessee to answer the questions below.

**Missouri amounts in millions**

**Arkansas amounts in millions**

**Kentucky amounts in millions**

**Tennessee amounts in millions**

NOTE: State Reciprocal refers to a program where states collect debts due to the federal government. For example, the state might offset an individual’s state income tax refund to pay all or part of that individual’s federal income tax debt. The Income Tax Program recovers state income tax. FY is fiscal year.


To see exact dollar amounts, go to Transparency.Treasury.gov/dataset/treasury-offset-program/collection-locations and use the menu to choose each state noted above. Drag your cursor over the graphs to get the exact dollar amounts.

a. For which state was the largest amount of unemployment insurance compensation recovered in FY 2016?

b. For which state was the largest amount of SNAP funds recovered in FY 2016?

c. For which state was the largest amount of state income tax recovered in FY 2016?

d. What might explain why Tennessee recovered no money through the Income Tax Program?

e. Which state recovered the most money through TOP in FY 2016?