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Undocumented Immigrants in Iowa

Estimated Tax Contributions and Fiscal Impact

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Purpose of the Report

This report examines undocumented immigrants in Iowa and their state tax contributions. Undocumented immigration remains a controversial issue in the United States, especially as the failure of federal immigration legislation has contributed to what the National Conference of State Legislatures (NCSL) describes as “an unprecedented level of activity” in state legislative bodies as states seek to develop their own policy solutions to the issue of undocumented immigration.¹

Many people mistakenly assume that undocumented immigrants in Iowa pay no taxes by virtue of their unauthorized status. Little research currently exists in Iowa examining the tax payments of undocumented immigrants. In February 2007, the Iowa Legislative Services Agency addressed this subject in an *Issue Review* that presented ratios of state taxes paid to state benefits accessed for undocumented immigrants. However, our study goes beyond this analysis by adopting a new methodology and presenting more extensive tax data.

Methodology

Our calculations begin with Pew Hispanic Center estimates of the size of the undocumented immigrant population in Iowa. The Pew Hispanic Center estimates that between 55,000 and 85,000 undocumented immigrants live in Iowa, part of a foreign-born population that grew approximately 145 percent between 1990 and 2000.

We assume that the average undocumented immigrant family in Iowa has an annual income of \$27,400, which is the Pew Hispanic Center’s estimate of the national average income for such a family. Our estimate of taxes paid by an undocumented immigrant family living in Iowa is derived from the state tax model developed by the Institute on Taxation and Economic Policy (ITEP). Two adjustments are then made to account for differences in taxes paid by documented vs. undocumented families. First, we adjust downward the amount of sales and excise tax paid by an undocumented family in order to account for remittances that family members may send back to their country of origin. Second, we follow the lead of similar state studies in assuming that only 50 percent of undocumented families have incomes that come from working “on the books” with a fake Social Security number and are therefore paying state income taxes. We assume that the remaining 50 percent of undocumented workers in Iowa are being paid “off the books” in cash and are not paying state income taxes.²

¹ National Conference of State Legislatures. “2007 Enacted State Legislation Related to Immigrants and Immigration.” 5 August 2007.

² In making these assumptions, we follow the lead of ITEP and various other states that have conducted research on the state fiscal impact of tax payments by undocumented immigrants (see Baker and Jones 2006, Coffey 2006, Ehresman 2006, New Mexico Policy Project 2006, Oregon Center for Public Policy 2006). National research has also supported the assumption that approximately 50 percent of undocumented workers are paying payroll taxes, including income tax. In his analysis of undocumented immigrant tax payments for the Center for Immigration Studies, Stephen Camarota (2004) uses the figure of

In addition, we present data on state unemployment insurance tax payments and federal Social Security and Medicare tax payments made by undocumented immigrant employees working “on the books” and by their employers.

We use several approaches to compare the tax payments by and on behalf of undocumented immigrants to the state services they access. We compare the tax payments and service eligibility of an undocumented immigrant family in Iowa with the tax payments and service eligibility of a documented family in Iowa with an income identical to that of the average undocumented family. In addition, we are able to estimate specific costs related to undocumented immigrants in three areas: K-12 public education, emergency medical care and incarceration.

It is important to emphasize that, given the limitations on available data, we are presenting estimates rather than definitive conclusions regarding the amount of taxes paid by undocumented immigrants and the cost of certain services accessed by this population.

Taxes Paid

We estimate that the average undocumented family in Iowa pays about \$1,254 in sales and excise taxes, \$110 in property taxes, and \$307 in income taxes, for a total tax contribution of \$1,671 each year. This represents approximately 80 percent of the total amount of taxes paid by a documented family in Iowa earning the same income. As the table below indicates, our calculations show that undocumented immigrant families in Iowa pay in the aggregate between \$40 million and \$62 million in state and local property, sales and excise, and income taxes every year, depending on the actual size of the undocumented immigrant population in Iowa.

	Tax payment per undocumented family	Aggregate tax payments for all undocumented families in Iowa
Property tax	\$111	\$2,665,887 to \$4,120,098
Sales and excise tax	\$1,253.72	\$30,110,593 to \$46,535,579
Income tax	\$306.50	\$7,364,233 to \$11,381,087
Total income, sales and excise, and property taxes	\$1,671.22	\$40,140,713.24 to \$62,036,763.96

55 percent compliance. Passel and Clark (1998) estimate that 60 percent of undocumented immigrants pay these taxes, but adjust that compliance rate to 50 percent to account for undercounting the number of undocumented immigrants. If anything, our assumption of a 50 percent payment rate likely underestimates the amount of undocumented workers in Iowa paying payroll and income taxes.

Undocumented immigrant workers who work “on the books” also contribute additional state and federal taxes that go to pay for benefits that, because of their illegal status, these workers will never be able to access. Every year, employers pay the State of Iowa an estimated \$1.85 million to \$2.86 million in state unemployment insurance premiums on behalf of their unauthorized employees, and undocumented workers and their employers together pay an estimated \$50.3 million to \$77.8 million in Social Security and Medicare taxes to the federal government.

Services Used

It is important to emphasize that there is a substantial disparity between services for which undocumented immigrant families are eligible and those for which legal, low-income Iowa families are eligible. Undocumented immigrants in Iowa are eligible for only a very few state-funded services, primarily K-12 public education, emergency medical care, and certain emergency relief programs. They are not eligible for, among other things, unemployment benefits, in-state tuition at public universities, Medicaid, *hawk-i* children’s health insurance program, or child-care assistance and, in some cases, may pay taxes for services they can never receive. For instance, undocumented immigrants in Iowa pay state unemployment insurance and federal Social Security and Medicare taxes; however, because they cannot access these benefits, their tax payments offset and perhaps subsidize the provision of services and benefits to documented residents.

Many of the services that federal law provides for undocumented immigrants (for instance, emergency police and fire services) are administered at the local level. Undocumented immigrants may also access many local services that do not have citizenship or legal residence requirements. Since undocumented immigrants are not spread evenly across the state of Iowa but are in fact concentrated in certain localities, it is important to note that these localities with large concentrations of undocumented immigrants will have a more substantial cost burden than is reflected in the statewide average of costs and taxes paid.

Summary of Findings

As a group, undocumented immigrant families pay less in state taxes than do their legal counterparts in Iowa; however, even an undocumented family sending home remittances and paying no state income taxes will pay more than \$1,300 into the state coffers each year. Undocumented immigrants in Iowa pay an aggregate amount of between \$40 million and \$62 million in state and local property, sales and excise, and income taxes every year. Importantly, despite tax payments that are approximately 80 percent of the taxes paid by legally documented families with comparable incomes, undocumented immigrant families are eligible for far fewer state and federal services than are documented residents in Iowa.

Conclusions

Studies estimating the cost of services used by undocumented immigrants should also take into account the taxes that these immigrants pay. Comparisons between the fiscal impacts of undocumented immigrants and documented state residents will be more accurate if they include these tax estimates, compare undocumented immigrants to a documented family of similar income characteristics, and consider how the cost of each family’s accessed services is dependent on eligibility criteria for these services.

The Legislative Services Agency report appears to assume that the cost of services accessed by each family in Iowa should be no greater than the amount of state taxes paid by that family. Such an assumption is misleading. That framework of analysis fails to account for the fact that state spending on all low-income families, undocumented or documented, is understood as an investment in these individuals that, particularly with regard to public education, will produce future returns not easily measurable through a balance sheet comparing annual costs and annual taxes paid. Our state tax system collects taxes from families according to their ability to pay taxes and then allocates these revenues in order to provide needed services. Like many documented families in Iowa, undocumented immigrants are “paying for” only a portion of the cost of state services. Because of their restricted eligibility, this portion may be higher than that paid by documented families at the same income level. More importantly, an analytical framework that understands the relationship between the state and taxpayers in terms of investments rather than in terms of net surpluses or deficits will more accurately reflect the fiscal impact of providing and funding state services.

Given that many solutions to undocumented immigration will have to be developed at the federal rather than state level, our analysis concurs that the best state-level policy responses to the fiscal issues of undocumented immigration involve finding ways to increase the rate and amount of state tax payments by undocumented immigrants. These policy responses could include efforts to, for instance, increase the percent of income taxes collected from undocumented workers by issuing “dummy” taxpayer identification numbers or increasing enforcement of employers’ withholding of income taxes. Policies could also seek to increase the average income of undocumented immigrants in Iowa in order to collect more sales and excise and income tax revenue, perhaps through increasing the minimum wage or providing more educational opportunities to improve the skills of undocumented immigrants.

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