



Adding Up the Billions in Tax Dollars Paid by Undocumented Immigrants

Often lost in political and policy debates about undocumented immigration is a simple yet crucial fact: undocumented immigrants pay taxes. Like everyone else in the United States, they pay sales taxes. They also pay property taxes—even if they rent. As a [report](#) from the Institute on Taxation and Economic Policy (ITEP) points out, “the best evidence suggests that at least 50 percent of undocumented immigrant households currently file income tax returns using Individual Tax Identification Numbers (ITINs), and many who do not file income tax returns still have taxes deducted from their paychecks.”¹ The end result is that undocumented immigrants are paying billions of dollars each year in taxes. Moreover, as several studies have found, undocumented immigrants would earn much more, and therefore pay much more in taxes, if they had some sort of legal status, be it permanent or temporary. Not surprisingly, permanent status yields more tax revenue than temporary status.

Current Tax Contributions

- According to ITEP’s estimates, which do not count federal taxes, undocumented immigrants paid \$11.6 billion in state and local taxes in 2013. This includes:²
 - \$7 billion in sales taxes,
 - \$1.1 billion in income taxes, and
 - \$3.6 billion in property taxes.
- Tax payments ranged from \$2.2 million in Montana, which is home to only 4,000 undocumented immigrants, to \$3.1 billion in California, with an undocumented population numbering more than 3 million.³
- Six states—California, Texas, New York, Illinois, New Jersey, and Florida—derived the most revenue from taxes paid by undocumented immigrants (Figure 1).⁴
- In 2013, the average effective state and local tax rate of undocumented immigrants—that is, the share of their total income which they paid in taxes—was 8 percent, compared to 5.4 percent for the top 1 percent of all taxpayers.⁵

Legalization vs. Executive Action

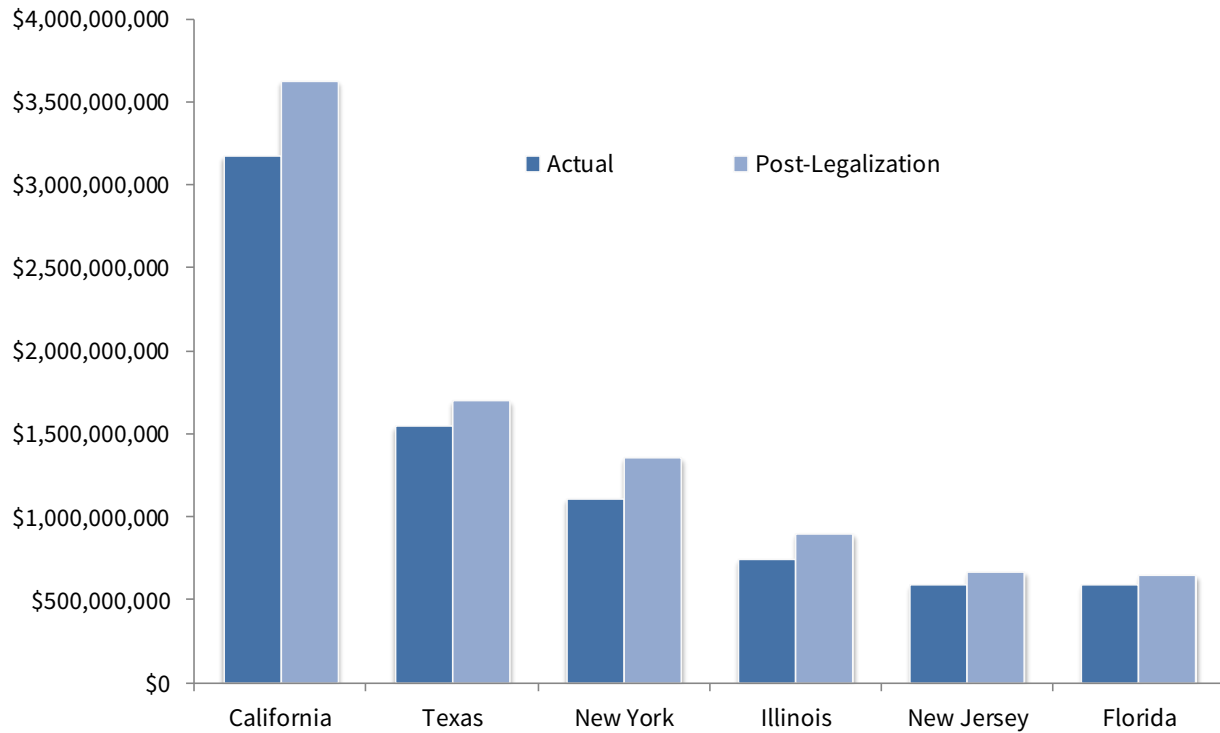
There are two scenarios that would markedly increase the tax contributions of undocumented immigrants:⁶

1. The granting of lawful permanent resident (LPR) status to all 11 million undocumented immigrants—in other words, legalization. This would generate the largest increase in tax revenue.
2. The temporary reprieve from deportation and the renewable three-year work authorization that the Obama administration would grant to five million undocumented immigrants through [executive action](#). This includes expansion of the existing Deferred Action for Childhood Arrivals (DACA) program for undocumented immigrants brought to this country as children, plus the creation of a new Deferred Action for Parents of Americans and Lawful Permanent Residents (DAPA) program for undocumented immigrants with children who are U.S. citizens or LPRs.⁷ The tax benefits flowing from these measures, however, would not be as high as under a broad legalization program.

Tax Contributions if Legalized

- Legal status enables immigrants to get better jobs and earn higher incomes, which increases the amount they pay in taxes. Moreover, virtually all immigrants with legal status pay into the tax system, compared to roughly half of the undocumented. The end result is more tax revenue at all levels of government.⁸
- ITEP estimated that if all undocumented immigrants had LPR status today, their state and local tax contributions would be \$2.1 billion higher than they actually are—for a total of \$13.8 billion. This includes:⁹
 - \$7.6 billion in sales taxes,
 - \$2.2 billion in income taxes, and
 - \$4 billion in property taxes.
- The largest increases in tax revenue resulting from legalization would be in California, Texas, New York, and Illinois (Figure 1).¹⁰
- The average effective state and local tax rate of formerly undocumented immigrants granted legal status would rise from 8 to 8.6 percent.¹¹

Figure 1: Six States With Largest Tax Contributions by Currently Undocumented Immigrants, Actual & Post-Legalization



Source: Lisa Christensen Gee, Matthew Gardner & Meg Wiehe, Undocumented Immigrants' State & Local Tax Contributions (Washington, DC: Institute on Taxation and Economic Policy, February 2016), p. 3.

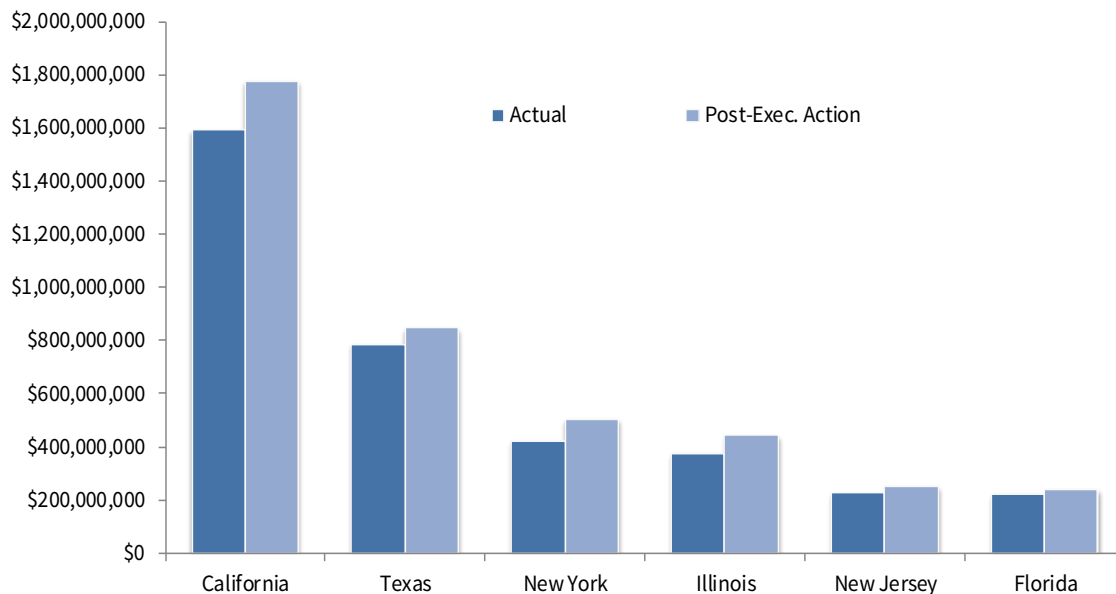
Other researchers have produced comparable estimates of increases in tax revenue under a legalization scenario:

- In the first three years following legalization, the “higher earning power of newly legalized workers...would generate \$4.5 to \$5.4 billion in additional net tax revenue” at the federal level, according to a 2010 study from the North American Integration and Development (NAID) Center at the University of California, Los Angeles (UCLA).¹²
 - This increase in tax revenue stems from the fact that “all immigrant workers in this scenario have full labor rights, which results in higher wages—and higher worker productivity—for all workers in industries where large numbers of immigrants are employed.”¹³

Tax Contributions under Executive Action

- The impact of executive action on the earnings and tax contributions of eligible undocumented immigrants is very similar to that of legalization. However, since executive action would benefit only five of the 11 million undocumented immigrants in the country, the overall effect on state and local tax revenue would be smaller than in the case of legalization.¹⁴
- According to ITEP, the state and local tax contributions of the five million undocumented immigrants eligible for relief under the Obama administration’s executive actions would increase from their current level of \$5.3 billion to \$6.1 billion—an increase of \$805 million. This would include:¹⁵
 - An increase from the current \$3.2 billion to \$3.4 billion in sales taxes,
 - an increase from the current \$470 million to \$912 million in income taxes, and
 - an increase from the current \$1.6 billion to \$1.8 billion in property taxes.
- The largest increases in tax revenue resulting from the implementation of executive actions would be in California, Texas, New York, and Illinois (Figure 2).¹⁶
- The average effective state and local tax rate of undocumented immigrants benefiting from executive actions would rise from 8.1 to 8.6 percent.¹⁷

Figure 2: Six States With Largest Tax Contributions by Currently Undocumented Immigrants Eligible for Exec. Action, Actual & Post-Exec. Action



Source: Lisa Christensen Gee, Matthew Gardner & Meg Wiehe, Undocumented Immigrants’ State & Local Tax Contributions (Washington, DC: Institute on Taxation and Economic Policy, February 2016), p. 5.

- Other researchers have produced comparable estimates of increases in tax revenue under an executive action scenario
- An executive action scenario in which 4.7 million unauthorized immigrants with a minor child in the United States received deferred action and work authorization would increase federal tax revenue by [\\$2.9 billion](#) in the first year and up to \$21.2 billion over five years, according to a 2014 study from the Center for American Progress.¹⁸This increase stems from two factors:
 1. If undocumented immigrants can work legally, many workers and employers alike will “emerge from the underground economy and pay payroll taxes for the first time.”¹⁹
 2. Additionally, “allowing undocumented immigrants to work legally will lead to higher wages” because work authorization would “equip them with a shield against workplace exploitation and enable them to move freely across the labor market to find jobs that best match their skills.”²⁰
- “If deferred action were extended to the 3.7 million undocumented immigrants who are parents or legal guardians of minors that are U.S. citizens, legal permanent residents (LPRs), or are DACA eligible, it would generate...[\\$2.5 billion](#) in new tax revenue” at the federal, state, and local levels over two years, according to a 2014 study from the NAID Center, UCLA.²¹ This outcome is based on two assumptions:
 1. Receiving employment authorization “provides the undocumented with labor market mobility, allowing them to find work that is commiserate with their skills and to improve those skills, which subsequently leads to increased earning power.”²²
 2. As a result, “the undocumented are able to maximize their productivity and income, which increases the value they add to the economy (GDP) and the taxes they pay.”²³

The Bigger Picture

ITEP’s estimates, and those of other researchers, should be kept in mind as policymakers debate how best to deal with the millions of undocumented immigrants who now live in the United States. In spite of their undocumented status, these immigrants—and their family members—are [adding value](#) to the U.S. economy, not only as taxpayers, but as workers, consumers, and entrepreneurs as well.²⁴ If they had legal status, they would contribute even more. On the other hand, one of the alternatives being discussed in some circles—[mass deportation](#)—would be very a costly and economically self-destructive blunder,²⁵ not to mention a humanitarian catastrophe.

Endnotes

1. Lisa Christensen Gee, Matthew Gardner, and Meg Wiehe, *Undocumented Immigrants' State & Local Tax Contributions* (Washington, DC: Institute on Taxation and Economic Policy, February 2016), <http://www.itep.org/pdf/immigration2016.pdf>, p. 2.
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6. *Ibid.*
7. American Immigration Council, *A Guide to the Immigration Accountability Executive Action* (Washington, DC: November 2014), http://www.immigrationpolicy.org/sites/default/files/docs/a_guide_to_the_immigration_accountability_executive_action_final.pdf.
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9. *Ibid.*, p. 15.
10. *Ibid.* p. 3.
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12. Raúl Hinojosa-Ojeda, *Raising the Floor for American Workers: The Economic Benefits of Comprehensive Immigration Reform* (Center for American Progress, January 2010), http://www.immigrationpolicy.org/sites/default/files/docs/Hinojosa_-_Raising_the_Floor_for_American_Workers_010710.pdf, p. 13.
13. *Ibid.*, p. 11.
14. Lisa Christensen Gee, Matthew Gardner, and Meg Wiehe, *Undocumented Immigrants' State & Local Tax Contributions* (Washington, DC: Institute on Taxation and Economic Policy, February 2016), <http://www.itep.org/pdf/immigration2016.pdf>, p. 4.
15. *Ibid.*, p. 20.
16. *Ibid.*, p. 5.
17. *Ibid.*, p. 20.
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23. *Ibid.*
24. American Immigration Council, *Value Added: Immigrants Create Jobs and Businesses, Boost Wages of Native-Born Workers* (Washington, DC: January 2012), <http://www.immigrationpolicy.org/just-facts/value-added-immigrants-create-jobs-and-businesses-boost-wages-native-born-workers>.
25. Ben Gitis, *The Personnel and Infrastructure Needed to Remove All Undocumented Immigrants in Two Years* (Washington, DC: American Action Forum, February 28, 2016), <http://americanactionforum.org/research/the-personnel-and-infrastructure-needed-to-remove-all-undocumented-immigran>.