



Fiscal Facts: Tax Contributions of Virginia's Undocumented Immigrants

By Michael Cassidy and Sara Okos

Executive Summary

- Estimates place Virginia's undocumented population between 250,000 and 300,000 individuals.
- The combined income of Virginia's undocumented workers is between **\$2.99 billion and \$3.59 billion**.
- Estimates indicate that half of Virginia's undocumented population pays federal or state income taxes.
- Virginia's undocumented population pays an estimated total of between **\$145 million and \$174 million** in state income taxes, sales and excise taxes, and property taxes.
- Undocumented immigrants working "on the books" pay an additional **\$114 million to \$137 million** in Social Security and Medicare taxes. Their employers match this contribution and pay an additional **\$4 million to \$5 million** in unemployment insurance taxes on their behalf.

Undocumented Immigrants Pay Taxes, Too Estimates of the Tax Contributions of Virginia's Undocumented Population	
Assumptions:	Estimates:
Number of undocumented	250,000 to 300,000
Average household size	2.29
Annual household Income	\$27,400
Annual household income after remittances	\$23,866
Income tax compliance rate	50%
Payroll tax compliance rate	50%
Estimates of Income:	
Total income	\$2.99 billion to \$3.59 billion
Total income after remittances	\$2.61 billion to \$3.13 billion
Estimates of taxes paid by workers:	
State income taxes, excise taxes, and property taxes	\$145 million to \$174 million
Social Security taxes	\$93 million to \$111 million
Medicare taxes	\$22 million to \$26 million
Total tax contributions of workers:	\$260 million to \$311 million
Estimates of taxes paid by employers on behalf of workers:	
Social Security taxes	\$93 million to \$111 million
Medicare taxes	\$22 million to \$26 million
State unemployment insurance taxes	\$4 million to \$5 million
Total tax contributions of employers on behalf of workers:	\$119 million to \$142 million

Introduction

The effect of undocumented immigrant workers on Virginia's economy is an intensely debated subject. The discussion typically focuses on the costs of providing services to this population. Very rarely do the economic contributions of these individuals and families enter the conversation. In order to develop policy solutions that promote prosperity for the Commonwealth and all of its residents, it is vital that the discussion flows from data that factors both inputs and outputs.

Virginia's undocumented workers, like Virginia's documented workers, live in homes and apartments and consume goods and services. The fact that they are undocumented does not mean that they can avoid paying sales taxes on their purchases or that they can bypass property taxes, at least as part of the rent paid to their landlords. In addition to sales, excise and property taxes, at least half of Virginia's undocumented immigrants are employed "on the books" where payroll and income taxes are regularly withheld. In fact, the Social Security Administration's chief actuary has estimated that as many as three-fourths of this population has payroll taxes withheld.¹ This compares with an estimated 81 to 84 percent of the U.S. population as a whole, who voluntarily pays their income taxes on time.²

This study attempts to synthesize available data on the state's undocumented population in order to estimate how much they contribute to state resources. Though it is impossible to calculate precisely how much these men and women pay in taxes, this study aims to approximate the scale of the tax payments they make.³

Tax Contribution: Methodology

In order to estimate the taxes paid by Virginia's undocumented population, the Commonwealth Institute partnered with the Institute on Taxation and Economic Policy (ITEP), a nonprofit and nonpartisan research organization that educates policymakers and the public on issues surrounding tax policy. ITEP maintains a model of state and local tax structures that allows it to

¹ Stephen Goss, chief actuary with the Social Security Administration, has suggested that as many as 75 percent of the undocumented pay payroll taxes. See Porter, Eduardo. "Illegal Immigrants Are Bolstering Social Security With Millions." *New York Times*, April 5, 2005. A recent review of research by the Congressional Budget Office in its paper, "The Impact of Unauthorized Immigrants on the Budgets of State and Local Governments," shows that income tax compliance rates are typically estimated to fall between 50 and 75 percent. A 1994 Urban Institute Study by Rebecca Clark et. al. cites a Los Angeles County study that found 58 percent of undocumented immigrant workers pay income taxes. See "Fiscal Impacts of Undocumented Aliens: Selected Estimates for Seven States." For the purpose of this study, the lower bound compliance estimate of 50 percent is utilized to estimate income, Social Security, and Medicare taxes paid by the state's undocumented immigrants.

² GAO. Testimony Before the Committee on the Budget, U.S. Senate. "Tax Compliance: Multiple Approaches Are Needed to Reduce the Tax Gap." Jan. 23, 2007.

³ Some inconsistencies in aggregated estimates may arise due to rounding.

estimate the taxes paid by different income groups within a state. Using estimates of Virginia's undocumented population and the income earned by undocumented families, ITEP's model provides a vehicle by which the sales, income, and property taxes paid by Virginia's undocumented families may be estimated.

Population

The Department of Homeland Security only estimates the size of states' undocumented immigrant populations for the 10 largest immigrant states. Because Virginia is not one of these states, this analysis relies upon a different estimation methodology utilized by the Pew Hispanic Center.⁴ A 2005 report by the Pew Center on the size and characteristics of the nation's undocumented population places Virginia's undocumented population somewhere in the range of between 250,000 and 300,000 individuals. These high and low estimates are used in this analysis to calculate tax contributions.

How Big is Virginia's Undocumented Population?

The Pew Hispanic Center Estimates that between 250,000 and 300,000 undocumented immigrants live in Virginia.

Using Pew's average of 2.29 people per household, there are between 109,170 and 131,004 undocumented households in the Commonwealth.

Income

The Pew Hispanic Center's report revealed that the undocumented are considerably more likely to work in lower wage and lower education occupations than the naturalized and native populations. More specifically, it estimated that the average income for an undocumented family in 2003 was \$27,400.

How Much Do the Undocumented Make in Earnings?

The Pew Hispanic Center estimates that an undocumented household in Virginia makes \$27,400 annually in income.

The Inter-American Development Bank estimates that each year Virginia's Latin American immigrants send \$3,534 back to their countries of origin.

Whether the Pew Center's national figure mirrors what is happening in Virginia is not clear. The actual state average may be higher or lower. Due to a lack of state-specific data, the Commonwealth Institute used the \$27,400 estimate of income for this analysis.

One caveat regarding income assumptions has to do with remittances. Research indicates that many immigrant workers send a portion of their earnings to family members in their country of origin. In 2006,

⁴ The Department of Homeland Security's Office of Immigration Statistics uses U.S. Census data to estimate states' undocumented populations; however, their methodology only allows them to do so for the top 10 immigrant states. Because the sample size is too small in Virginia, OIS does not publish estimates of the undocumented immigrant population for Virginia.

it was estimated that 90 percent of Virginia immigrants regularly sent money abroad.⁵ Furthermore, Virginia ranks in the top five states in terms of the size of annual remittances — with an average transfer of \$3,534.⁶ Because remittances reduce the income that immigrants can spend within the state, the pre-remittance income figure is used to calculate income and payroll tax contributions, while an income figure adjusted for remittances is used to estimate sales, property and excise taxes.

Tax Payments

In order to estimate how much Virginia’s undocumented population contributes in tax dollars, the Commonwealth Institute relied upon ITEP’s model of state and local tax structures. Using the population and income estimates from the Pew Hispanic Center, the model projects the sales, income and excise taxes paid per undocumented household.

How Much Do The Undocumented Pay in Taxes?	
Sales and Excise, Income, and Property:	\$145-\$174 million
Social Security:	\$93-\$111 million
Medicare:	\$22-\$26 million
TOTAL:	\$260-\$311 million

While it is impossible for the undocumented to avoid paying sales, excise and property taxes, the exact proportion of undocumented workers who pay income taxes is unknown. This analysis assumes that roughly half of undocumented workers are employed on the books.

The ITEP model estimates that an average undocumented household pays \$1,596 annually in sales, excise, property and income taxes, while an average undocumented household that does not pay income taxes still contributes two-thirds of this amount in sales, excise and property taxes. With between 109,170 and 131,004 undocumented households and an income tax compliance rate of 50 percent, tax contributions total between \$145 and \$174 million dollars.

How Much Do Employers Contribute in Taxes on Behalf of Undocumented Workers?	
Social Security:	\$93-\$111 million
Medicare:	\$22-\$26 million
Unemployment Insurance:	\$4-\$5 million
TOTAL:	\$119-\$142 million

Undocumented immigrants who work on the books also pay Social Security and Medicare taxes, although they are incapable of benefiting from these programs until they become legal U.S. residents. Using current tax rates and a 50 percent compliance rate, undocumented workers pay an additional \$93 million to \$111 million in Social Security taxes, and

⁵ Williams, Krissah. “Immigrants Sending \$45 Billion Home.” *Washington Post*, Oct. 19, 2006.

⁶ Wasow, Bernard. “Private Foreign Aid Is Bigger Than Ever.” The Century Foundation, March 20, 2007. <http://www.tcf.org/list.asp?type=NC&pubid=1535>, retrieved Jan. 3, 2008. This figure is for Latin American immigrants. It is employed in this analysis as a proxy for the remittances of Virginia’s entire undocumented population.

an additional \$22 million to \$26 million in Medicare taxes. The employers of undocumented immigrants (working on the books) match these tax contributions and pay an additional \$4 million to \$5 million in unemployment insurance taxes.⁷

Conclusion

The undocumented population contributes to the Virginia economy in substantial ways. They provide critical labor to certain industries, including construction, manufacturing, and leisure and hospitality,⁸ and the \$2.6 billion to \$3.1 billion in income earned by this group is used to purchase goods and services in the Commonwealth.⁹ Furthermore, the taxes paid by the undocumented population total between \$260 million and \$311 million. When the payroll taxes of employers of undocumented immigrants working on the books are considered, these numbers increase to between \$379 million and \$453 million.

⁷ These figures utilize the 2007 average effective unemployment insurance tax rate for Virginia of .29 percent. The Public Policy Institute of New York, <http://www.ppinys.org/reports/jtf/uitaxrate.html>, retrieved Jan. 11, 2008. See also: Knapp, John and Moyer, Megan Coltson. "Virginia's Unemployment Insurance Program." The Virginia News Letter, December 2003, Vol. 79 No. 6.

⁸ Passel, Jeffrey. "Unauthorized Migrants: Numbers and Characteristics: Background Briefing Prepared for Task Force on Immigration and America's Future." Pew Hispanic Center, June 14, 2005.

⁹ Income after remittances.

Support The Commonwealth Institute

The work of The Commonwealth Institute is supported by grants from charitable foundations and non-profit organizations as well as support from individuals. This research was partially funded by the Annie E. Casey Foundation. We thank them for their support but acknowledge that the findings and conclusions presented in this report are those of the author alone, and do not necessarily reflect the opinions of the Foundation.

To learn more about how you or your organization can support The Commonwealth Institute, please visit our Web site, www.thecommonwealthinstitute.org or call us at 804-643-2474, ext. 117.