

Undocumented, But Not Untaxed

At the register, at the pump, and often on payday undocumented immigrants contribute to Virginia's tax base



THE
COMMONWEALTH
INSTITUTE

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Undocumented immigrants make important contributions to Virginia's economy and tax coffers.

Each year, undocumented immigrants in Virginia pay between \$200.2 million and \$304.3 million in sales and excise taxes, local property taxes, and state income taxes.

That's about 6.6 percent to 7 percent of household income for the approximately 260,000 to 290,000 undocumented immigrants in the state. This is an amount well above the 5.1 percent paid by the top one percent of income earners in the state.

Sales and Excise Taxes

No one can avoid paying state sales and excise taxes. Those taxes are collected when goods are purchased. Whether a person buys grapefruits or gasoline, immigration status has nothing to do with whether a business collects sales or excise taxes. We estimate that undocumented immigrants pay between \$105.8 million and \$135.4 million in sales and excise taxes per year in Virginia, which amounts to about 3.3 percent of household income.

Undocumented Immigrants Make Significant Contributions to Virginia's Tax Coffers

	LOW	← range →	HIGH
Sales and Excise	\$106 million		\$135 million
Property	\$ 52 million		\$ 67 million
Income	<u>\$ 43 million</u>		<u>\$102 million</u>
TOTAL	\$200 million		\$304 million

Sources: TCI analysis of Pew Research, MPI, and ITEP data
Numbers may not add due to rounding

Property Taxes

Just like sales and excise taxes, immigration status has nothing to do with paying property taxes. Just like other Virginians, undocumented immigrants who own homes pay property tax to local governments. And just like other renters, undocumented immigrants who rent, while they don't pay directly, have a portion of their rent passed on by landlords in the form of the property tax they owe. We estimate that undocumented immigrants in Virginia pay between \$51.9 million and \$67.1 million, about 1.6 percent of household income, in property taxes per year.

State Income Taxes

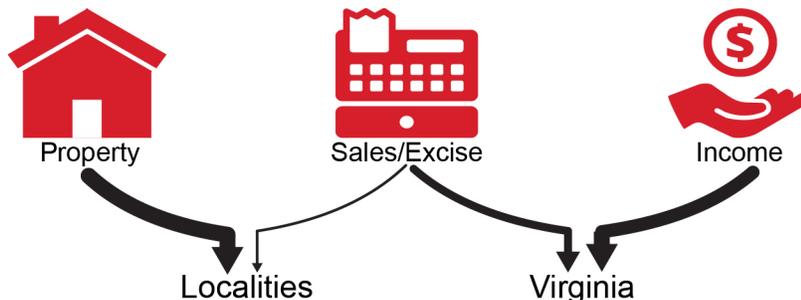
Between 67 percent and 75 percent of undocumented immigrants pay state income taxes as well. That's because most are working "on the books" and have state income taxes withheld from their paychecks. Some apply for and use Individual Taxpayer Identification Numbers from the Internal Revenue Service. Others file taxes using false Social Security numbers. For many immigrants, it's about paying their way, for others it's an opportunity to build a paper trail and establish ties to this country. Either way, they pay state income taxes. The exact dollar amount is hard to pin down, though it likely is between \$42.6 million and \$101.8 million a year. That totals about 1.4 to 2.3 percent of their household income.

What Isn't Included

And there are even more taxes that undocumented immigrants pay. For example, all employers in the state pay unemployment insurance taxes on their employees, including the 67 to 75 percent of undocumented immigrants who pay state income taxes.

But the majority of these employer payroll taxes are actually borne by employees. That's because employers simply reduce

Undocumented Immigrants Pay Taxes in Many Ways



Many undocumented immigrants are making these contributions despite being ineligible for Social Security and Medicare benefits.

wages by most of the amount of the tax. Employees pay these taxes on behalf of undocumented immigrants, boosting Virginia's unemployment insurance trust fund with contributions for a set of workers who are ineligible to receive any unemployment benefits.

Many undocumented immigrants are also paying federal taxes, including the employee share of taxes for Social Security and Medicare, using Social Security numbers and Individual Taxpayer Numbers. And, just like unemployment insurance, much of the cost of the employer portion of Social Security is paid for by workers. What's more, many undocumented immigrants are making these contributions despite being ineligible for Social Security and Medicare benefits. In other words, they're paying something for nothing.

The bottom line is that undocumented immigrants make significant contributions to the Virginia economy and tax rolls despite being ineligible for many of the services and benefits they contribute to. In order to develop policies that promote the prosperity of all Virginians, it is essential that debates about immigration broaden to include these important contributions.

Methodology Note

According to Pew Research, there were between 260,000 and 290,000 undocumented immigrants in Virginia in 2012. Pew also estimates that undocumented families in the United States have an average size of 2.29 members. This means there were between 113,500 and 126,600 families/households in Virginia in 2012 - an amount that has remained constant over the past few years.

The Migration Policy Institute estimates the family income of undocumented immigrants in Virginia in 2013. The estimates are broken into five point estimates with the percentage of the population earning five different amounts of the federal poverty threshold. These are converted to dollars using 2.29 members per family. We used a conservative estimate of the distribution of incomes with a mean of \$26,800 as well as a larger estimate of the distribution of income with a mean of \$34,500.

The Institute on Taxation and Economic Policy's "Who Pays" analysis estimates the effective sales and excise, property, and income tax rates for Virginians based on their income. These rates are matched to the different income levels but some adjustments were necessary.

Undocumented immigrants send money to their home countries every year. We estimate this remittance to be 10%, which slightly lowers the sales and excise tax contribution and property tax contribution.

Homeowners are assessed property taxes. Renters aren't assessed property taxes but they pay a majority of them through rent. The Migration Policy Institute estimates that 33% of undocumented immigrants in Virginia are homeowners. We assumed the remaining 67% of renters paid 50% of the property taxes for their homes.

Some undocumented immigrants work entirely off the books and don't pay income taxes, but the Social Security Administration estimates that between 67 percent and 75 percent of unauthorized immigrants are working on the books. We used a conservative estimate of 50% for the lower which reduced undocumented immigrants' state income tax contributions by a half as well as a generous estimate of 75% for the upper estimate. The effective tax rates can be calculated by dividing tax payments by income.

ITEP estimated the tax contributions of all fifty states in "Undocumented Immigrants' State & Local Tax Contributions"; an invaluable resource on the tax contributions of undocumented immigrants. Their Virginia estimate of \$240,431,000 fits well inside the range of our estimates. We elected to use a range instead of a point estimate so our top-line numbers would capture the uncertainty of estimating the characteristics of undocumented immigrants. This uncertainty is driven by the wide ranges of estimates of the population of undocumented immigrants, of the distribution of their incomes, and of the proportion of undocumented immigrants who pay income taxes.

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