

Undocumented Workers Are Taxpayers, Too

Public discussion in Oregon about undocumented immigrant workers and their families has tended to focus on the costs to Oregon of providing certain public services to these families.¹ Relatively little is mentioned about the contributions undocumented workers make to Oregon.

Undocumented workers are an important part of Oregon's economy. The work they perform is vital in certain industries. In addition, a substantial portion of the roughly \$2 billion they earn in income each year is spent on goods, services, and taxes in Oregon, to the benefit of the state economy.

This issue brief estimates the total contributions by undocumented Oregon workers in state income taxes, property taxes, and excise taxes. In addition, this issue brief computes the approximate amount undocumented workers pay in federal Social Security and Medicare taxes, which are matched by employers. Last, it also estimates the amount Oregon employers pay in state unemployment insurance taxes on behalf of undocumented workers.

Data on undocumented workers is limited. Though it is not possible to determine precisely the tax contributions made by undocumented workers, the available data allows reasonable estimates of the likely scale of tax payments they make.

| Estimated annual tax contributions of undocumented workers in Oregon | |
|---|---------------------------------------|
| Estimated number of undocumented immigrants in Oregon | 125,000 – 175,000 |
| Estimated total annual income of undocumented workers | \$1.8 billion to \$2.5 billion |
| Total of estimated taxes paid by undocumented workers: | \$134 million to \$187 million |
| State income taxes, excise taxes, and property taxes | \$65 million to \$90 million |
| Social Security taxes | \$56 million to \$79 million |
| Medicare taxes | \$13 million to \$18 million |
| Total of estimated taxes paid by Oregon employers on behalf of undocumented workers: | \$97 million to \$136 million |
| State Unemployment Insurance taxes | \$28 million to \$39 million |
| Social Security taxes | \$56 million to \$79 million |
| Medicare taxes | \$13 million to \$18 million |

How many undocumented immigrants live in Oregon?

- *Oregon's undocumented immigrant population is estimated at between 125,000 and 175,000.*

The first step in computing the approximate taxes paid by undocumented workers in Oregon is to determine the size of the undocumented population. The Pew Hispanic Center estimates Oregon's 2005 undocumented immigrant population at between 125,000 and 175,000.² This estimate is in line with a prior estimate by the Pew Hispanic Center,³ and with a report by the former Immigration and Naturalization Service (now the U.S. Citizenship and Immigration Services bureau).⁴ The OCPP estimates Oregon's undocumented immigrant population at between 125,000 and 175,000.

How much income do undocumented workers make?

- *Oregon's undocumented immigrant families average \$24,300 in annual income.*
- *In the aggregate, undocumented workers living in Oregon earn between \$1.8 billion and \$2.5 billion in income annually.*

Undocumented workers tend to work in low-wage jobs, and therefore have low incomes. Nationally, undocumented workers are concentrated in low-wage farming, cleaning, construction, and food preparation jobs.⁵

The Pew Hispanic Center has estimated the income of undocumented "families" in the U.S. and in Oregon. In these estimates, individual undocumented immigrants count as "families," as do couples with and without children.⁶

According to the Pew Hispanic Center, Oregon's undocumented immigrant families average \$24,300 in annual income.⁷ In the aggregate, undocumented immigrant workers living in Oregon earn between \$1.8 billion and \$2.5 billion in income annually.⁸

How much do undocumented Oregon immigrants pay in state and local income taxes, property taxes, and excise taxes?

- *Undocumented immigrants contribute annually to Oregon between \$65 million and \$90 million in property taxes, state income taxes, and excise taxes.*

To estimate how much undocumented Oregon immigrants pay in state income taxes, property taxes, and excise taxes such as gas and cigarette taxes, the OCPP relied upon data from the Institute on Taxation and Economic Policy (ITEP), a non-profit, non-partisan research and education organization based in Washington, D.C. that provides tax information to state policy makers and others. ITEP maintains a model of state and local tax structures that allows researchers to estimate the state and local tax contributions of families at different income levels.

ITEP's model can be used to estimate the tax contributions of undocumented immigrant families. We made two adjustments to ITEP's basic model so it could better estimate the taxes paid by undocumented immigrants. First, the model was adjusted so that all households are assumed to be renters, not homeowners. This was done so that property taxes would be more accurately apportioned to them. OCPP assumes that few, if any, undocumented immigrants pay property taxes as homeowners. Second, since studies suggest that between 50 and 70 percent of undocumented workers pay income and payroll taxes, the OCPP conservatively adjusted the model to subject only half (50 percent) of the income earned by undocumented workers in Oregon to state income taxes.⁹

The OCPP estimates that undocumented immigrants contribute annually to Oregon between \$65 million and \$90 million in state income taxes, property taxes, and excise taxes such as gas and cigarette taxes.

How much do undocumented Oregon workers pay in Social Security and Medicare taxes?

- *Undocumented immigrant workers in Oregon pay between \$56 million and \$79 million annually in Social Security taxes, and another \$13 million to \$18 million annually in Medicare taxes. Employer contributions match these payments.*

Undocumented workers may also have Social Security and Medicare taxes withheld from their paychecks. OCPP again conservatively assumes that half of undocumented workers in Oregon pay these payroll taxes. These taxes help to fund federal social programs that will not benefit undocumented workers unless in the future they become legal U.S. residents.

OCPP estimates that undocumented immigrant workers in Oregon pay between \$56 million and \$79 million annually in Social Security taxes, which is matched with employer contributions.¹⁰

Undocumented immigrants in Oregon pay another \$13 million to \$18 million annually in Medicare taxes that are also matched by employer contributions.¹¹

Oregon employers pay \$28 million to \$39 million in state unemployment insurance taxes on behalf of undocumented workers.

Unemployment Insurance (UI) provides temporary, partial wage replacement benefits for laid-off workers. UI benefits help families avoid the worst aspects of unemployment and sustain demand for goods and services provided by local businesses. UI also benefits employers who must temporarily lay off workers by helping to assure that those workers will be available to return to work when the employer needs them again.

Undocumented workers are not eligible to receive unemployment insurance (UI) benefits. As a result, their families, their employers, and their communities are less stable following layoffs than they otherwise would be.

Even though undocumented workers are ineligible for UI benefits, some Oregon employers pay UI taxes on behalf of undocumented workers. These UI payments to the state unemployment insurance trust fund help cover unemployment insurance benefits for authorized Oregon workers.¹²

As mentioned earlier, studies have found that between 50 and 70 percent of undocumented immigrants pay income and payroll taxes. Using that research, the OCPP estimates that half (50 percent) of the earnings of Oregon undocumented immigrants are subject to UI taxes that are paid by their employers.

Based on this assumption, the OCPP estimates that Oregon employers annually pay between \$28 million and \$39 million in state UI taxes on behalf of undocumented workers.¹³ When undocumented workers are laid off, though, the benefits of UI do not accrue to the workers, their families, their employers, or their communities.

Conclusion

Public debate about undocumented workers in Oregon should be informed by an understanding of the significant contributions these workers make to Oregon's economy as workers, consumers, and taxpayers. The labor of undocumented workers is crucial to certain industries. They purchase products and services in Oregon with the roughly \$2 billion in income they earn annually. Finally, they are taxpayers, contributing millions of dollars annually to Oregon's tax base and to the federal Social Security and Medicare systems. These taxes paid by undocumented workers total about \$134 million to \$187 million annually. Taxes paid by Oregon employers on behalf of undocumented workers total about \$97 million to \$136 million annually.

Undocumented workers are ineligible for the Oregon Health Plan, food stamps, and temporary cash assistance. They may receive some emergency services, and their children (most of whom are probably U.S. citizens) may attend public school.¹⁴ At the same time, undocumented workers contribute substantially to Oregon's economy, through their labor, their purchases, and the taxes they pay.

This work is made possible in part by the support of the Ford Foundation, the Governance and Public Policy Program of the Open Society Institute, the Stoneman Family Foundation, the Oregon School Employees Association, and by the generous support of organizations and individuals. The Oregon Center for Public Policy is a part of the State Fiscal Analysis Initiative (SFAI) and the Economic Analysis and Research Network (EARN).

Endnotes:

¹ For example, opponents of Governor Kulongoski's Healthy Kids initiative, which would assure all Oregon children have health coverage, have emphasized the costs to Oregon of providing health coverage to the children of undocumented workers. See for example, *Wallowa County Chieftain*, "Editorial: 'Healthy Kids' Plan Built on Shaky Foundation," March 1, 2007. Available at <http://www.wallowacountychieftain.info/main.asp?SectionID=6&subsectionID=6&articleID=12381&Q=54510.27>. See also Oregon House Republicans, "Key House Republicans Raise Questions Over Governor's Health and Tobacco Tax Proposal." Press release issued January 27, 2007. Available at http://www.leg.state.or.us/press_releases/scott_012407.pdf. See also Colburn, Dan, "Healthy Kids, Tough Questions," *The Oregonian*, January 25, 2007. Available at <http://www.oregonlive.com/elections/oregonian/index.ssf?/base/news/1169700910279910.xml&coll=7>. The content of debate during last year's gubernatorial campaign also emphasized the costs of providing state services to undocumented workers and their families. See for example, Esteve, Harry, "GOP Tackles Illegal Immigration," *The Oregonian*, February 5, 2006, Sunrise edition, p. B01. According to the article, Republican gubernatorial candidate Ron Saxton claimed that a shortfall in the Department of Human Services budget was an indication of the burden undocumented immigrants put on the state, even though undocumented immigrants are not eligible for the Oregon Health Plan, the primary driver of the DHS shortfall. Undocumented immigrants are also not eligible for food stamps or temporary cash assistance.

² Pew Hispanic Center, "Estimates of the Unauthorized Migrant Population for States Based on the March 2005 CPS," Fact Sheet dated April 26, 2006.

³ Passel, Jeffrey, *Unauthorized Immigrants: Numbers and Characteristics: Background Briefing Prepared for Task Force on Immigration and America's Future*, Pew Hispanic Center, June 14, 2005, p. 14.

⁴ U.S. Immigration and Naturalization Service, *Estimates of the Unauthorized Immigrant Population Residing in the United States: 1990 to 2000*, p. 15. The IRS report estimates that Oregon's undocumented resident population in 2000 was about 90,000, and that it had grown by about 6,400 people annually over the 1990s. Assuming conservatively the same average annual growth occurred since 2000, Oregon's undocumented population in 2006 would be 128,000. If the average annual *percentage* growth during the 1990s (25 percent) were applied to the period since 2000 (instead of the average *raw numbers* growth), the estimate of Oregon's 2006 undocumented immigrant population would be 337,000.

⁵ Passel, Jeffrey S. *The Size and Characteristics of the Unauthorized Immigrant Population in the U.S.: Estimates based on the March 2005 Current Population Survey*, Pew Hispanic Center, March 7, 2006, p. 11.

⁶ This formulation makes "family" units in the analysis similar to taxpayer units. Couples with and without children are considered unauthorized if either the family head or their spouse is unauthorized. See Passel, Jeffrey S. *The Size and Characteristics of the Unauthorized Immigrant Population in the U.S.: Estimates based on the March 2005 Current Population Survey*, Pew Hispanic Center, March 7, 2006, p. 8.

⁷ Unpublished analysis of Current Population Survey for 2003-05 by Jeffrey Passel, Pew Hispanic Center, emailed to OCPP on March 15, 2006.. Passel's estimate is for the 2003-05 period. His analysis also showed that Oregon families native to the U.S. earned \$46,000 annually, nearly twice as much as undocumented families.

⁸ Since there are an estimated 125,000 to 175,000 undocumented immigrants in Oregon living in family units containing on average 1.7 undocumented immigrants (from Jeffrey Passel of the Pew Hispanic Center's unpublished analysis of the Current Population Survey for 2003-05, emailed to OCPP on March 15, 2006), there are between about 75,000 and 104,000 undocumented immigrant "families" in Oregon. These families are earning an average of about \$24,300 in annual income. In the aggregate, then, undocumented immigrants are earning between about \$1.8 billion and \$2.5 billion annually.

⁹ The *Economic Report to the President*, transmitted to the Congress in February 2005, along with the Annual Report of the Council of Economic Advisors, reported that, "More than half of undocumented immigrants are believed to be working 'on the books' . . ." (p. 107). A study by Steven Camarota of the Center for Immigration Studies entitled *The High Cost of Cheap Labor* (August 2004) estimated that 55 percent of undocumented immigrant workers pay payroll taxes, including income taxes (p. 17). A survey of documented and undocumented immigrants in the Chicago metro area by the Center for Urban Economic Development at the University of Illinois at Chicago entitled *Chicago's Undocumented Immigrants: An Analysis of Wages, Working Conditions, and Economic Contributions* (2002) estimated that employers collected payroll taxes from 70% of undocumented workers. Jeffrey Passel and Rebecca Clark, in their paper *Immigrants in New York: Their Legal Status, Incomes, and Taxes*, (Urban Institute, April 1998) estimate that 50% of undocumented immigrants pay income taxes. An earlier Urban Institute study by Rebecca Clark et. al. entitled *Fiscal Impacts of Undocumented Aliens: Selected Estimates for Seven States* (September 1994) cites a study in Los Angeles County which found 58% income tax compliance among undocumented immigrants.

¹⁰ Assumes a Social Security tax rate paid by employees of 6.2 percent of earnings.

¹¹ Assumes a Medicare tax rate paid by employees of 1.45 percent of earnings.

¹² Moreover, employers who lay off undocumented immigrants will not see their UI tax rates increase, since the undocumented immigrants cannot collect UI benefits. Employers whose workers receive UI benefits may see their state UI tax rate increase in the future.

¹³ The state UI tax rate paid in 2006 by Oregon employers varies from 1.2 percent to 5.4 percent, depending on the employer's history of workers receiving UI benefits. The OCPP's estimate of state UI taxes paid by employers of undocumented immigrants assumes the employers paying state UI taxes on behalf of such workers pay a state UI tax rate of 3.1 percent. This is the state UI tax rate paid by employers new to the UI system in 2006, and is known as the "base" rate. More than half of employers in the UI system pay the base rate. The base rate is somewhat higher than the average state UI tax rate paid by Oregon employers, but the average

Undocumented Workers Are Taxpayers, Too

rate is pulled down by employers with very low turnover. Since the OCPP assumes that undocumented immigrant workers tend to be in industries with relatively high turnover, the 3.1 percent base UI tax rate is more likely to reflect the rate paid by employers of undocumented immigrants than is the average UI tax rate. The OCPP's analysis also assumes that no Oregon undocumented immigrant worker earns more than \$28,000 from a single employer. Employers are required to pay state UI taxes in 2006 on each employee's earnings up to \$28,000. Earnings above \$28,000 are not subject to state UI taxes.

¹⁴ The Pew Hispanic Center estimates that in 2005 about two-thirds (64 percent) of children in undocumented immigrant families nationally were U.S. citizens. Passel, Jeffrey S. *The Size and Characteristics of the Unauthorized Immigrant Population in the U.S.: Estimates based on the March 2005 Current Population Survey*, Pew Hispanic Center, March 7, 2006, p. 7.