

Undocumented Workers Are Taxpayers, Too

It's essential that Oregonians recognize the important contribution undocumented workers make to our state's economy. Undocumented immigrants perform vital work in certain industries. Together they earn roughly \$2.3 billion to \$4.5 billion a year, much of it undoubtedly spent on goods and services purchased from Oregon businesses. And beside labor and purchasing power, undocumented immigrants contribute to Oregon's economy in the form of taxes.

This issue brief updates OCPP's estimates of tax contributions by undocumented Oregon workers. Specifically, OCPP estimates (1) how much undocumented workers pay in state and local income, property and excise taxes; and (2) how much they pay in federal Social Security and Medicare taxes. In addition, we estimate the taxes paid by employers in the name of undocumented workers. These include the employer's share of Social Security and Medicare taxes and the amount employers pay in state Unemployment Insurance taxes in the name of undocumented workers.

Data on undocumented workers is more limited than data on workers generally. 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 undocumented workers make.

Estimated annual tax contributions of undocumented workers in Oregon	
Estimated number of undocumented immigrants in Oregon	110,000 – 220,000
Estimated total annual income of undocumented workers	\$2.3 billion to \$4.5 billion
Total of estimated taxes paid by undocumented workers:	\$154 million to \$309 million
State and local income, excise and property taxes	\$68 million to \$136 million
Social Security taxes	\$70 million to \$140 million
Medicare taxes	\$16 million to \$33 million
Total of estimated taxes paid by Oregon employers in the name of undocumented workers:	\$121 million to \$243 million
State Unemployment Insurance taxes	\$35 million to \$70 million
Social Security taxes	\$70 million to \$140 million
Medicare taxes	\$16 million to \$33 million

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How many undocumented immigrants live in Oregon?

Oregon's undocumented immigrant population is estimated at between 110,000 and 220,000.

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 2010 undocumented immigrant population at between 110,000 and 220,000.¹ This estimate is in line with prior estimates by the center,² and with a report by the former Immigration and Naturalization Service (now U.S. Citizenship and Immigration Services).³ OCPP's analysis assumes that Oregon's undocumented immigrant population is between 110,000 and 220,000.

How much do undocumented workers earn each year?

***The typical undocumented immigrant household earns \$36,000 a year.
In total, undocumented workers living in Oregon earn between \$2.3 billion and \$4.5 billion a year.***

National data shows that undocumented workers tend to work in low-wage jobs. Nationally, undocumented workers are concentrated in farming, grounds-keeping and building maintenance, construction and food preparation jobs.⁴

The Pew Hispanic Center has estimated the income of undocumented households based on analysis of U.S. Census Bureau data. These estimates include individual undocumented immigrants as well as couples with and without children.⁵

According to the Pew Hispanic Center, the median income⁶ of undocumented immigrant households is \$36,000.⁷ Thus, OCPP estimates that undocumented immigrant workers living in Oregon earn a total of between \$2.3 billion and \$4.5 billion in income annually.⁸

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

Undocumented immigrants annually contribute to Oregon between \$68 million and \$136 million in state and local income, property and excise taxes.

To estimate how much undocumented Oregon immigrants pay in state and local income, property and excise taxes (such as gas and cigarette taxes), 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., which 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, 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

Based on these assumptions, OCPP estimates that undocumented immigrants contribute annually to Oregon between \$68 million and \$136 million in state and local income, property and excise taxes.¹⁰

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

Undocumented workers in Oregon pay between \$70 million and \$140 million annually in Social Security taxes, and another \$16 million to \$33 million annually in Medicare taxes. Employers 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 fund federal social programs, which will not benefit the undocumented workers unless in the future they become legal U.S. residents.

OCPP estimates that undocumented immigrant workers in Oregon pay between \$70 million and \$140 million annually in Social Security taxes, which is matched with employer contributions.¹¹

Undocumented immigrants in Oregon pay another \$16 million to \$33 million annually in Medicare taxes, which are also matched by employer contributions.¹²

How much do employers pay in the name of undocumented Oregon workers in state Unemployment Insurance taxes?

Oregon employers annually pay between \$35 million and \$70 million in state Unemployment Insurance taxes in the name 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 UI benefits. As a result, their families, employers and 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 in the name of undocumented workers. These UI payments to the state unemployment insurance trust fund help cover unemployment insurance benefits for authorized Oregon workers.¹³

As mentioned earlier, studies have found that between 50 and 70 percent of undocumented immigrants pay income and payroll taxes. Using that research, OCPP assumes 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, OCPP estimates that Oregon employers annually pay between \$35 million and \$70 million in state UI taxes in the name of undocumented workers.¹⁴ When undocumented workers are laid off, though, they are not entitled to UI benefits. The benefits from these tax contributions accrue to other laid-off workers, their families, employers and communities.

Many tax-funded public services exclude undocumented immigrant taxpayers

Despite their tax payments, undocumented workers do not qualify for many public services. For example, they are ineligible for the Oregon Health Plan (Medicaid) generally, Supplemental Nutrition Assistance Program (food stamps), temporary cash assistance, federal Social Security and Medicare, and state Unemployment Insurance benefits. They may receive some emergency services, such as medical coverage for pregnant women or emergency cash assistance for parents and pregnant women who are victims of domestic violence.¹⁵ The children of undocumented workers — most of whom are U.S. citizens, according to the research — may attend public school.¹⁶

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 — not just as workers and consumers, but also as taxpayers. A conservative estimate of how much undocumented workers contribute annually to Oregon's tax base and to the federal Social Security and Medicare systems puts that figure at \$154 million to \$309 million. Additionally, taxes paid by Oregon employers in the name of undocumented workers total \$121 million to \$243 million annually.

Endnotes

¹ Passel, Jeffrey S. and D'Vera Cohn. *Unauthorized Immigrant Population: National and State Trends, 2010*, Pew Hispanic Center, February 1, 2011.

² For example, 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 and Passel, Jeffrey S., *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.

³ U.S. Immigration and Naturalization Service, *Estimates of the Unauthorized Immigrant Population Residing in the United States: 1990 to 2000*, p. 15. The INS 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. The Office of Immigration Statistics, part of the U.S. Department of Homeland Security (DHS), now releases annual reports containing estimates of the undocumented population. Unfortunately, these reports only contain estimates for the 10 states with the highest numbers of undocumented immigrants. Oregon is no longer included, as it was in the earlier INS report. However, on a national level, DHS's estimates closely track Pew's estimates. For national yearly estimates see Hoefler, Michael, Nancy Rytina, and Bryan C. Baker, *Estimates of the Unauthorized Immigrant Population Residing in the United States: January 2010*, U.S. Department of Homeland Security, Office of Immigration Statistics, February 2011, p. 2 and Jeffrey S. Passel and D'Vera Cohn, *Unauthorized Immigrant Population: National and State Trends, 2010*, Pew Hispanic Center, February 1, 2011, p. 1.

⁴ Passel, Jeffrey S. and D'Vera Cohn, *A Portrait of Unauthorized Immigrants in the United States*, Pew Hispanic Center, April 14, 2009, p. 15.

⁵ Couples with and without children are considered unauthorized if either the family head or their spouse is unauthorized. See Passel, Jeffrey S. and D'Vera Cohn, *A Portrait of Unauthorized Immigrants in the United States*, Pew Hispanic Center, April 14, 2009, pp. vi-vii.

⁶ In previous analyses, OCPP used an estimate of the "average family income" of undocumented immigrants provided by the Pew Hispanic Center to calculate aggregate income. This estimate is no longer available. Instead, Pew has published an estimate of "median household income" for undocumented immigrants. It's unlikely that there is a large difference between the median and the average income of undocumented workers, given that undocumented workers are concentrated at the low end of the income scale.

⁷ Passel, Jeffrey S. and D'Vera Cohn, *A Portrait of Unauthorized Immigrants in the United States*, Pew Hispanic Center, April 14, 2009, p. 16. The comparable figure for those born in the U.S. is \$50,000. The difference is also notable because unauthorized immigrant households have more workers per household (1.75) than U.S.-born households (1.23) and, in contrast to other immigrant households, unauthorized households do not tend to attain markedly higher incomes the longer they are in the United States.

⁸ Since there are an estimated 110,000 to 220,000 undocumented immigrants in Oregon living in household units containing on average 1.75 undocumented workers (Passel, Jeffrey S. and D'Vera Cohn, *A Portrait of Unauthorized Immigrants in the United States*, Pew Hispanic Center, April 14, 2009, p. 16) there are between about 63,000 and 126,000 undocumented immigrant households in Oregon. The typical undocumented household earned about \$36,000 in annual income. In the aggregate, then, undocumented immigrants are earning between about \$2.3 billion and \$4.5 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 titled *Chicago's Undocumented Immigrants: An Analysis of Wages, Working Conditions, and Economic Contributions* (2002) estimated that employers collected payroll taxes from 70 percent 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 percent of undocumented immigrants pay income taxes. An earlier Urban Institute study by Rebecca Clark et. al. titled *Fiscal Impacts of Undocumented Aliens: Selected Estimates for Seven States* (September 1994) cites a study in Los Angeles County which found a 58 percent income tax compliance among undocumented immigrants.

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¹⁰ Unpublished analysis by the Institute on Taxation and Economic Policy, emailed from Matt Gardner to OCPP on December 8, 2011.

¹¹ Assumes the permanent Social Security tax rate paid by employees of 6.2 percent of earnings. For 2011 and at least part of 2012, Congress enacted a temporary 4.2 percent employee Social Security tax rate. At that level the estimated range would be between \$48 million and \$95 million per year from undocumented workers. The employer share does not change under the temporary tax cut; employers continue to pay the full 6.2 percent under the temporary measures.

¹² Assumes a Medicare tax rate paid by employees of 1.45 percent of earnings.

¹³ 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.

¹⁴ The state UI tax rate paid in 2010 by Oregon employers varies from 1.8 percent to 5.4 percent, depending on the employer's history of workers receiving UI benefits. OCPP's estimate of state UI taxes paid by employers of undocumented immigrants assumes the employers paying state UI taxes in the name 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 2010, 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 rate is pulled down by employers with very low turnover. Since 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. OCPP's analysis also assumes that no Oregon undocumented immigrant worker earns more than \$32,100 from a single employer. Employers are required to pay state UI taxes in 2010 on each employee's earnings up to \$32,100. Earnings above \$32,100 are not subject to state UI taxes.

¹⁵ Oregon Law Center, *Immigration Status and Eligibility for Government Help*, General Advice Pamphlet, available at www.ocpp.org/media/uploads/documents/2012/ORLawCenterImmigrationStatusEligibilityForGovHelp.pdf

¹⁶ The Pew Hispanic Center estimates that in 2009 nearly four out of five children (79 percent) in undocumented immigrant households nationally were born in the United States, and thus are U.S. citizens. Passel, Jeffrey S. and Paul Taylor, *Unauthorized Immigrants and their U.S.-Born Children*, Pew Hispanic Center, August 11, 2010, p. 1.

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