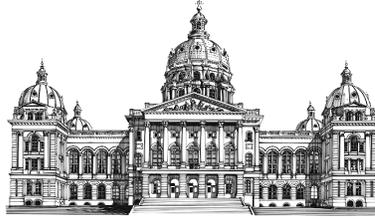


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# Iowa Legislative Services Agency

## Fiscal Services

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### Undocumented Immigrants' Cost to the State

#### ISSUE

Recently, a debate about immigration policy and, in particular, undocumented immigrants has been taking place at the federal level. This issue was brought home to Iowa on December 12, 2006, when federal agents raided the Swift and Company meat packing plant in Marshalltown.

One issue often raised is the cost to taxpayers of illegal immigrants' use of publicly funded services. This *Issue Review* will seek to provide a general overview of undocumented immigrants' impact on the cost of State government services in Iowa.

#### AFFECTED AGENCIES

All State Agencies

#### BACKGROUND

The only government services that illegal immigrants are eligible for are elementary and secondary public education and emergency health care.<sup>1</sup> Most citizens do not gain direct benefits from a majority of government spending. Instead, government programs are intended to benefit society as a whole through maintenance of a healthy economy, satisfying public health and safety concerns, providing basic infrastructure, etc. Although undocumented immigrants do not receive most direct benefits, the total benefit of State spending is assumed to accrue to undocumented immigrants at the same rate as legal residents.

Undocumented immigrants are, by law, subject to all existing taxes including sales, excise, property, income, and payroll taxes.<sup>2</sup> Most of these taxes cannot be avoided. The income tax is an exception. If an undocumented immigrant has provided a false social security number to his or her employer and the employer is abiding by the law, payroll and income taxes will be deducted from his paycheck. The Internal Revenue Service has estimated that about six

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<sup>1</sup> Lipman, Francine J., The Taxation of Undocumented Immigrants: Separate, Unequal, and Without Representation, 9 Harv. Latino L. Rev. 1 (2006), 2.

<sup>2</sup> Lipman 2.

million individual income tax returns are filed by undocumented immigrants each year.<sup>3</sup> However, many undocumented immigrants work for cash, earning income that neither they nor their employer report. This makes it difficult to determine precisely how much undocumented immigrants are contributing in income taxes.

The analysis that follows is intentionally general, since many assumptions would have to be made in an attempt to quantify undocumented workers' exact dollar cost to the State. Equally numerous assumptions would be required to quantify the fiscal and economic benefits of undocumented immigrants. The analysis includes only direct State taxes and General Fund expenditures; neither federal nor local taxes and expenditures are considered.

### **CURRENT SITUATION**

Iowa is home to an estimated 55,000 to 85,000 undocumented immigrants.<sup>4</sup> For the purposes of this *Issue Review*, the mid-point estimate of 70,000 is used. Nation-wide demographic traits of undocumented immigrants indicate the following for Iowa's population:

- An estimated 33,600 (48.0%) are adult men.
- An estimated 26,600 (38.0%) are adult women.
- An estimated 9,800 (14.0%) are children.
- An estimated 30,240 (90.0%) undocumented men are in the workforce.
- An estimated 13,300 (50.0%) undocumented women are in the workforce.
- The average undocumented worker earns an estimated \$19,293 per year.<sup>5</sup>

The Iowa Department of Revenue created a tool in 2004 to calculate the average State and local taxes paid by Iowans in various income brackets. This tool can be used to estimate income and sales taxes paid by the average undocumented worker in Iowa. However, as mentioned above, it is difficult to determine what percent of undocumented workers are paying income taxes. Therefore, a range of possible tax contributions is given in **Table 1**.

<b>Table 1</b>					
<b>Estimated FY 2004 Tax Contributions of Undocumented Immigrants</b>					
<b>at Various Rates of Income Tax Payment Compliance</b>					
Undocumented Workers	0	10,885	21,770	32,665	43,540
Paying Income Tax	(0.0%)	(25.0%)	(50.0%)	(75.0%)	(100.0%)
Est. Income Tax Payments	\$0.0	\$6.3 million	\$12.7 million	\$19.0 million	\$25.4 million
Est. Sales Tax Payments	\$45.5 million				
<b>Total Estimated Payments</b>	<b>\$45.5 million</b>	<b>\$51.8 million</b>	<b>\$58.2 million</b>	<b>\$64.5 million</b>	<b>\$70.9 million</b>

**Table 1** shows that undocumented workers' tax contributions totaled between \$45.5 and \$70.9 million in FY 2004. Therefore, each undocumented worker contributed between \$1,045 and \$1,628 in taxes in FY 2004. Based on the assumption of 70,000 total undocumented immigrants, both working and non-working, it can be estimated that between \$650 and \$1,013 was contributed per undocumented immigrant.

<sup>3</sup> Lipman, 8.

<sup>4</sup> "Estimates of the Unauthorized Migrant Population for States Based on the March 2005 CPS, Fact Sheet, April 26, 2006, Pew Hispanic Center Website, <http://pewhispanic.org/files/factsheets/17.pdf>.

<sup>5</sup> Lipman, 5.

In FY 2004, a total of approximately \$4.5 billion was appropriated from Iowa’s General Fund. This is the assumed benefit that all Iowa residents receive from the State government. The estimated population of the State at that time according to the Census Bureau was 2,950,000. This includes the 70,000 estimated undocumented immigrants, since the Census counts all U.S. residents. Dividing the total \$4.5 billion benefit by Iowa’s total population results in an average benefit per resident in FY 2004 of an estimated \$1,534.

Again, assuming 70,000 undocumented immigrants, each receiving a benefit of \$1,534, the total cost of undocumented immigrants to the State General Fund in FY 2004 was an estimated \$107.4 million. This translates to an estimated \$37 per legal resident for the fiscal year. The total is equal to 2.4% of FY 2004 General Fund expenditures.

Another way to analyze this information is as a ratio of taxes paid to benefit received. For the average Iowa resident, this ratio is 1:1 – the benefits received from State General Fund expenditures are equal to State taxes paid. The range of possible ratios is illustrated in **Table 2**.

% Undocumented Paying Income Tax	(0.0%)	(25.0%)	(50.0%)	(75.0%)	(100.0%)
Est. Cost to Benefit Ratio	1 to 2.4	1 to 2.1	1 to 1.8	1 to 1.7	1 to 1.5
Est. Benefit per \$1.00 Taxes Pd.	\$2.40	\$2.07	\$1.84	\$1.66	\$1.50
Benefit Calculation	Benefit of \$1,534/ \$650 taxes paid	Benefit of \$1,534/ \$740 taxes paid	Benefit of \$1,534/ \$831 taxes paid	Benefit of \$1,534/ \$921 taxes paid	Benefit of \$1,534/ \$1,013 taxes paid

For undocumented immigrants, it is necessary to look at a range of possible cost-benefit ratios due to the uncertainty of income tax collections. These ratios assume that all sales tax receipts projected in **Table 1** are collected. If no income taxes were paid by undocumented immigrants, the FY 2004 ratio would have been 1:2.4 (a benefit to undocumented immigrants of \$2.40 for each \$1.00 contributed in taxes). If 100.0% of income taxes were paid, the ratio would be 1:1.5 (\$1.50 of benefit to undocumented immigrants for each \$1.00 in tax contribution). If half of undocumented immigrants paid income taxes, the ratio would be 1:1.8 (a benefit of \$1.80 for each \$1.00 in tax contribution). All Iowans earning incomes similar to the average undocumented worker’s income of \$19,300 would experience a benefit ratio of 1:1.51.

The presence of undocumented immigrants also means that the cost-benefit ratio of State government for the average legal resident is not 1:1 but slightly less, since legal residents are subsidizing illegal residents to some extent. If 0.0% of undocumented immigrants paid income taxes, the ratio would have been 1:0.986 (a benefit of \$0.986 for each \$1.00 contributed in taxes). If 100.0% of undocumented immigrants paid income taxes, the ratio would be 1: 0.992 (a benefit of \$0.992 for each tax dollar contributed).

**ALTERNATIVES**

Undocumented immigrants qualify for few services at the State level, and those for which they do qualify are largely mandated by federal law or the Courts. Therefore, decreasing undocumented immigrant eligibility for State spending does not appear to be a viable policy option. Additionally, if the assumption that undocumented immigrants accrue benefits even without receiving direct services is considered valid, attempting to reduce direct State expenditures on undocumented

immigrants would have a minimal effect. Three over-arching alternatives remain, with policy options related to each:

1. Reduce the number of undocumented immigrants in the State by increasing monitoring and enforcement of current laws directed at employers who hire undocumented immigrants.
2. Increase the percent of income taxes collected from undocumented workers.
  - Issue “dummy” taxpayer identification numbers at the State level that can be used to pay State income taxes anonymously.
  - Increase enforcement of income tax laws as they apply to employers’ withholding of income taxes.
  - Provide for a guarantee at the State level that income tax filing data cannot be used as a means of identifying undocumented immigrants.
3. Increase the average income of undocumented workers in the State in order to collect more sales tax and income tax revenue.
  - Raise the minimum wage and increase enforcement of the minimum wage requirement with employers.
  - Allow the children of undocumented immigrants to attend the State universities at in-state tuition rates.
  - Increase other educational opportunities for undocumented immigrants.

## **BUDGET IMPACT**

In FY 2004, undocumented immigrants cost the State General Fund an estimated \$107.4 million, or 2.4% of General Fund expenditures, according to the methodology used in this analysis. No cost estimates have been derived for the alternatives mentioned above; each would likely have some associated cost. Any attempt to change State tax policy related to undocumented immigrants will require in-depth political discussion if legislators wish to address the issue.

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NOTE: This **Issue Review** was authored by Kerri Johannsen, formerly of LSA staff.