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Are the Urban Institute's Estimates of Taxes Paid by Illegal Aliens Reasonable?

By Linda Thom

As the immigration debate has escalated, dueling studies have concluded that immigrants pay more in taxes than they receive in public services while other studies have concluded quite the contrary: that immigrants use billions more in services than they pay in taxes. The reports are lengthy and tedious and not readily available to or understandable by the public. Many individuals, therefore, have opinions which may or may not be based on fact.

The author has read most of these reports, including those of the Urban Institute (UI) whose reports state that overall immigrants "pay their way"; that is, they pay more in taxes than they cost the taxpayers in public services they receive. The Urban Institute, however, has concluded that illegal aliens cost states more in public services than they pay in state taxes (Clark, Urban Institute, September 1994). Despite this conclusion, the UI study has significant flaws in the estimated incomes earned and taxes paid by illegal aliens. Some of the analysis is complicated and will not be discussed. Understanding the flaws in the sales tax estimates is easy and that is the focus here.

Dueling Studies

In early 1994, the federal office of Management and Budget and the Department of Justice commissioned the Urban Institute to study the state-level costs and tax revenues generated by illegal aliens. The Urban Institute released *Fiscal Impacts of Undocumented Aliens: Selected Estimates for Seven States* in September 1994. On the same day, Governor Pete Wilson's office of Planning and Research and the California Department of Finance released a cost study entitled *Shifting the Costs of a Failed Federal Policy: The Net Fiscal Impact of Illegal Immigrants in California*.

Senator Barbara Boxer of California asked the U.S. General Accounting Office (GAO) to assess these two reports and to reconcile the discrepancies in the California state data. The GAO released its report, *Illegal Aliens: Assessing Estimates of Financial Burden of California in December 1994*. To avoid much detail, the bottom line is that all three reports concluded that

illegal aliens cost more in state services used than they pay in taxes to the states.

"... [the] study has significant flaws in the estimated incomes earned and taxes paid by illegal aliens."

The Wilson Administration study examined several independent studies of immigrants' public costs and tax payments, among them the Urban Institute's national study (Passel, *Immigrants and Taxes: A Reappraisal of Huddle's "The Cost of Immigrants,"* January 1994). The California report sharply criticized many of the studies with high estimates of taxes paid by immigrants, especially the sales tax estimates. The California report said, "...the high and median effective sales tax rates of 4.95% and 4.55% respectively imply that ninety to ninety-nine percent of illegal immigrants' incomes are spent on taxable items. With rent, services, food, funds sent to the country of origin, and other tax payments exempt from sales tax, this is an impossible assertion," (Romero, *Shifting the Costs*, p.14). The California report concluded that the maximum limit of taxes paid by immigrants was probably about the middle of the range for all the independent studies.

The GAO identified problems with revenue estimates for the UI and the independent studies discussed in the California report, and determined that it was unclear how much immigrants paid in taxes. The GAO report also concluded that the Urban Institute estimate of taxes would probably be at the high end of the range of those studies examined and criticized by the California report.

The UI report studied the three major state costs of education, incarceration, and Medicaid services for illegal aliens, and also included the estimated state income, sales and property taxes. The study did not encompass an estimate of federal taxes nor any other state and local taxes that illegal aliens pay as the scope of the report was the effects of illegal aliens on states,

Table 1
1991 California Returns and Income Taxes by Income Range

Income in thousands	% of total returns in this range	Taxes paid per return in this range	% of total taxes paid in this range
up to \$10	28%	\$4	0.1%
\$10 to \$20	21%	\$83	1.5%
\$20 to \$30	15%	\$340	4%
\$30 to \$40	11%	\$710	7%
\$40 to \$50	8%	\$1,011	7%
\$50 to \$60	5%	\$1,511	7%
\$60 to \$70	4%	\$2,014	7%
\$70 to \$100	6%	\$3,120	15%
Over \$100	4%	\$13,904	52%

not the federal government. This report concluded that in 1992 California illegal immigrants paid \$732 million total for the three taxes listed above; further, it concluded that the total of the three taxes studied for all the seven states amounted to \$1,866 million. California illegal aliens, therefore, paid 39% of the total taxes for the seven states studied according to the Urban Institute. As the California tax share is so large a portion of the total taxes for the nation, if the California tax estimates are flawed, then the total taxes estimated by the Urban Institute are flawed.

The UI study states that California's illegal aliens paid 1.7% of all three taxes studied and that illegal aliens constituted 4.6% of California's population in 1992. The report states, "...this relatively smaller share of revenues is attributable principally to the lower-than-average-incomes of undocumented immigrants" (Clark, p.15).

The most recent, publicly available income tax data for the state is 1991, a year prior to the Urban Institute tax revenue data. Table 1 shows data from the Franchise Tax Board Annual Report on returns and taxes paid for 1991.

Cooking the Books

The income shown in Table 1 is Adjusted Gross Income which is lower than personal income used by the Urban Institute; nevertheless, what is very important to note is that 49% of the returns filed had adjusted gross income of less than \$20,000. These 49% of the tax filers paid 1.6% of the income taxes paid for the state in 1991. Governor Wilson's proposed budget for fiscal year 1995-96 states that in 1992, those with incomes under \$20,000 made up nearly half the income

tax returns and paid 1.3% of the personal income taxes collected (Governor Wilson, p.116). In 1992, low income people paid even less in taxes than they did in 1991.

Recall that the Urban Institute study said that in 1992 illegal aliens, who made up 4.6% of the state population, paid 1.7% of all collections for the three taxes studied. Recall also that the Urban Institute study stated that the incomes of illegal aliens were *lower* than the average. Could it be that 4.6% of the population who are illegal aliens paid 1.7% of the total taxes if almost half of California income tax returns accounted for 1.3% of the income taxes paid in 1992? In order for this to be true, illegal aliens would have to pay a very high proportion of the total sales and property taxes to account for this very wide gap. It might also be that the UI income estimate for illegal aliens is too high.

Table 2 shows a breakdown of the three taxes studied by the Urban Institute and their assessment of taxes paid by illegal aliens in California in 1992 (Clark, Table 6.2). According to the UI study, the income taxes paid are only 6% of the total of the three taxes studied. The largest tax paid is the sales tax according to the UI. The sales tax accounts for 64% of the total taxes paid by illegal aliens. The California general sales tax is 7.25%. It is regressive. This means that low-income people pay proportionally more of their incomes in sales taxes than do high-income people. It does not mean that people with less income pay more sales taxes than high income people.

To understand these taxes on a personal level, we will examine the per capita incomes and the per capita taxes paid according to the UI study. The UI uses the Immigration and Naturalization Service's estimate of the number of illegal aliens residing in California in 1992. That number is 1.41 million people. In addition, the Urban Institute states that the per capita income of California's illegal aliens was \$6,752 in 1992 (Clark, Table 6.5).

If we divide the aggregate taxes paid according to the UI study above (\$732 million, Table 2) by the number of illegal aliens, 1,410,000, then we get the per capita taxes paid by illegal aliens in 1992 (\$519, Table 3).

If we subtract \$519 in total taxes paid from the UI estimated per capita income of illegal aliens, \$6,752, that leaves \$6,233. That seems reasonable enough, but how much does an illegal immigrant have to spend on taxable items to pay \$331 in general sales tax? The general sales tax is 7.25%. To determine the sales necessary to generate \$331 in sales tax, we divide \$331

Table 2
Urban Institute Estimates of Total Taxes
Paid by California Illegal Aliens in 1992

STATE TAX	AMOUNT PAID	PERCENT OF TOTAL
Total Taxes	\$732 million	100%
General Sales Tax	\$467 million	64%
Property Tax	\$219 million	30%
Income Tax	\$46 million	6%

by .0725 and we get \$4,566 in taxable purchases an illegal immigrant would have to make to pay \$331 in sales tax. After paying the three taxes studied by the Urban Institute, the illegal alien had \$6,233 remaining so if we subtract \$4,566 in taxable sales required to pay \$331 in sales tax, we get \$1,667 annually remaining for each illegal alien.

From this \$1,667 annual figure, an illegal alien also has to pay federal income taxes, Social Security Taxes, Medicare, gasoline taxes, among others. As an example, the Social Security and Medicare taxes are a flat 7.65% of payroll so with an income of \$6,752, an illegal alien would have to pay \$517 annually. If we subtract \$517 from the \$1,667 above which remained after we subtracted state taxes and taxable sales, we get \$1,150 remaining to pay food and rent and the other taxes which were not included in the calculations above. A summary follows:

Income	\$6,752
Less:	
State taxes	-\$519
Taxable purchases	-\$4,566
Social Sec. & Medicare-	\$517
Other Taxes	?
Remaining income for food, etc.	\$1,150

If we assume a household of three, then there would be 3 times \$1,150 or \$3,450 annually or \$288 per month left to pay the rent, food bills and the rest of the taxes. The UI study said that illegal aliens had lower incomes than the average. Note that an illegal alien household of three would have a gross income of 3 times \$6,752 annually or \$20,256 and almost half of all tax filers in California had adjusted gross incomes less than \$20,000 in 1992.

Does This Make Sense — or Cents?

Does this make sense? Of course not. Illegal immigrants do not pay their way and all studies agree on this point. Moreover, the Urban Institute's estimation of taxes paid by illegal aliens is too high so the costs borne by the states are even greater than was estimated by the Urban Institute. The California report

on illegal aliens commenting on the high sales tax revenue estimated by the independent studies says: "These exaggerated tax rates produce overestimates of state sales taxes paid by illegal immigrants by one-hundred to one-hundred twenty percent" (Romero, p.14). Governor Wilson's Administration is correct. The Urban Institute is incorrect. It's common sense.

As the Urban Institute methodology for calculating taxes for illegal immigrants was the same for all seven states studied, the taxes estimated by the UI are too high for all seven states. The sales taxes accounted for 57% of all the taxes paid by illegal aliens according to the Urban Institute. As the Urban Institute used the same sales tax calculation methodology in prior studies for all groups of immigrants (legal, refugee and illegal), the Urban Institute estimates in all studies are wrong. ■

REFERENCES

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- Passel, Jeffrey S. *Immigrants and Taxes: A Reappraisal of Huddle's "The Cost of Immigrants."* Washington, D.C.: The Urban Institute, January 1994.
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Table 3
Urban Institute Estimates of Per Capita Taxes
Paid by California illegal Aliens in 1992

Per Capita Income	\$6,752
Per Capita Sales Tax Paid	\$331
Per Capita Income Tax Paid	\$33
Per Capita Property Tax Paid	\$155
Total of the three taxes	\$519