

Immigrants and the Earned Income Tax Credit

by Edwin S. Rubenstein

The Earned Income Tax Credit (EITC) is available to single or married people with children who work at least part-time. Workers who have one child and family income of less than \$28,281 could get an EITC of up to \$2,428 in 2001. Those with two or more children and income below \$32,121 could get as much as \$4,008. EITC is a “refundable” tax credit, meaning that if the worker did not pay taxes, or paid less than the amount of the credit, the IRS will send him or her a check for the balance.

Technically, EITC is available only to immigrant workers who obtain legal work status. But the law allows immigrants to claim EITC for up to *three years prior* to obtaining that status. Workers simply file a tax return for the years in which they were not legally eligible to work in the U.S.!

The most widespread abuse stems from the requirement that children live with the worker for more than six months of the year. IRS does little to verify the claim. Many immigrants claim non-existent children, or claim children who they’ve left behind with relatives. The IRS is just now using a database from the Federal Case Registry of Child Support Orders to identify erroneous claims. Few immigrants will be covered by that device.

Steve Camarota of the Center for Immigration Studies examined the usage by Mexican immigrants of EITC and other welfare programs in a report issued in July 2001. Despite welfare reforms aimed at

reducing immigrant usage, most immigrants continue to be eligible because the changes primarily affect new arrivals. Also, in many cases state governments have chosen to provide benefits to otherwise ineligible immigrants. Therefore, changes made by Congress did not have the effect on long-term welfare use by Mexican immigrants that policymakers may have thought.

Camarota’s data shows that immigrants in general, and Mexican households in particular, use every major means-tested program at higher rates than natives.

While use of Supplemental Security Income (SSI) by Mexican households is only slightly higher than that of natives, their use of TANF/general assistance,

Use of Means-Tested Programs			
Program	Natives	All	Mexican
		Immigrants	Immigrants
SSI	3.9%	5.3%	4.1%
Public Housing	4.2	4.9	5.0
General Assistance (TANF)	2.1	3.2	5.5
Food Stamps	5.3	6.7	10.2
Medicaid	12.1	18.6	27.2
Unemployment Benefits	4.7	5.0	8.3
EITC eligibility	13.1	25.5	49.2

food stamps, and Medicaid, is dramatically higher than households headed by natives. All of these programs are very large in size. In 1999, more than \$300 billion was spent on the means-tested programs.

While immigrants use welfare programs at higher rates than natives do, their use of the EITC is substantially higher than that of natives. With an annual cost of \$32 billion, the EITC is the nation’s largest means-tested cash assistance programs for workers with low incomes. Persons receiving the EITC pay no federal income tax and instead receive cash assistance from the government based on their

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earnings and family size.

The percentages for the EITC above almost certainly overstate its use by both immigrants and natives, because unlike the other programs listed in the table, the Census Bureau assigns use of the credit to respondents based on their income and family characteristics, not based on their response to a specific question on the survey. All persons who file a return and are eligible for EITC should receive the EITC because the IRS will process it automatically if you qualify. However, persons whose employment is not reported to the IRS (i.e. they work off the books)

"Immigrants account for 10.4 percent of the U.S. population, but receive 20.9 percent of all EITC benefits, or an estimated \$6.7 billion in 2001."

or who do not file an income tax return will not receive the credit. Research indicates that in most years roughly 85 percent of those eligible for the EITC do, in fact, receive it.

Moreover, immigrants receive larger average benefit payments than natives. For EITC, average payment amounts in 1999 were as follows: Natives, \$1,456; all immigrants, \$1,693; Mexican immigrants, \$1,887. This is because EITC payments, like payments for public assistance and food stamps,

typically reflect the number of people in the households. Because immigrant households are larger on average (primarily because of higher fertility), the size of their average payment is also larger.

EITC and Illegal Immigrants

Not surprisingly, the use of means-tested welfare programs is more common among legal immigrants than illegals. But whether legal or illegal, immigrants make heavy use of welfare payments. Camarota's data show, for example, that 55.3 percent of legal Mexican immigrants receive EITC payments versus 39.4 percent of illegal Mexican immigrants.

Illegal immigrants from Mexico primarily receive welfare benefits on behalf of their American-born children. Camarota writes: "Use of means-tested programs by illegal immigrants from Mexico points to a fundamental problem that would almost certainly exist with any guestworker program. Even if guestworkers are made technically ineligible for means-tested programs, it seems almost certain that they would make use of them anyway by receiving benefits on behalf of their native-born children. After all, the findings ... indicate that despite an outright ban on their use, illegals from Mexico actually use such programs at higher rates than natives in many cases." •

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