



June 21, 2006

Undocumented Workers: Impact on Missouri's Economy

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Immigration policies, per se, are outside the purview of the Missouri Budget Project. However, it is the MBP's mission to provide information about fiscal issues that contributes to informed debate about education, health care and other policies that affect the common good of Missourians. The Missouri Budget Project believes that sound decisions are based on reliable data. Relatively little has been reported about the contributions of undocumented workers to Missouri. We offer this policy brief to support thoughtful and informed decisions about immigration policy.

Undocumented Workers Affect State's Revenues & Expenses

Undocumented immigrants are the focus of contentious public debate in Washington DC and in many states. In Missouri, legislators considered a bill during the 2006 session that would have made it unlawful to admit an undocumented person to a public institution of higher education. Proponents of the bill argued that the state's higher education resources should not be spent on non-citizens. Indeed, it is often argued that undocumented immigrants are a drain on our education and health care systems, as well as other services. This argument is one side of the coin. Fairness requires us to look at the other side as well, and to assess the economic contributions undocumented individuals and families make as workers, consumers and taxpayers.

National Role of Undocumented Workers

Undocumented workers account for about 12% of the work force in the United States.ⁱ Thirty-one percent of all undocumented workers are employed in the leisure and hospitality industriesⁱⁱ, and comprise about 10% of the work force in these industriesⁱⁱⁱ. Nineteen percent of undocumented workers are employed in construction and extractive occupations, and comprise 14% of all workers in construction^{iv}.

How many undocumented immigrants live in Missouri?

It is difficult to get a firm number of undocumented workers in Missouri. The Pew Hispanic Center estimates that there are between 35,000 and 65,000 undocumented persons living in Missouri^v, representing 15,285 to 31,707 families.^{vi} This paper consistently uses that range of individuals to estimate the amount of taxes contributed, as well as the consumed educational services.

How much do undocumented workers earn?

The estimated national annual family income of undocumented workers is \$27,400.^{vii} Undocumented workers in the country less than 10 years earn an average family income of

\$25,700.^{viii} These income levels are considerably lower than \$33,258, the average wage/salary in Missouri in 2003.^{ix}

In the aggregate, undocumented families earn an estimated \$419 million to \$869 million. Undocumented workers use the greater portion of this income to purchase goods and services, and thus contribute to the economy. In addition to this contribution, undocumented workers also pay taxes.

How much do undocumented immigrants in Missouri contribute through taxes?

Undocumented immigrants annually contribute between \$29 million and \$57 million in property taxes, state income taxes and excise taxes.

Tax contributions of undocumented workers	
Sales and Property Taxes (which are unavoidable)	From \$25 to \$50 million
Income Taxes (based on a 50% compliance rate by employers)	From \$4 to \$7 million
<i>Total aggregate taxes</i>	<i>From \$29 to \$57 million</i>

Undocumented workers may also have Social Security and Medicare taxes withheld from their paychecks. When these taxes are withheld, the undocumented workers are contributing to programs that provide income support and health care for elderly American citizens. Undocumented workers are not eligible for Social Security and Medicare.

How were these estimates developed?

The estimate of taxes paid by undocumented workers is based on a methodology developed by the Institute for Taxation and Economic Policy (ITEP).^x The ITEP methodology combines national estimates of the average income of undocumented workers and the estimated numbers of undocumented workers (from the Pew Hispanic Center) with tax rates specific to Missouri.

Sales tax is an indirect tax levied on sellers of goods. The seller passes that tax on to the consumer in the price of the commodity. Since consumers pay that tax at the point of purchase, sales taxes are unavoidable. **Property taxes** are also impossible to avoid, since they are likewise passed from landlord to tenant within rental fees. Based on average income and spending patterns for housing, food and other necessities, the ITEP model estimates that average rates for gross receipt (sales tax) are 5.48% % of the average income. Property taxes are about .23% of average income.

Income taxes are not as straightforward, since their collection depends on whether the employer withholds taxes from an undocumented worker and then pays them to the government. It is widely believed that income taxes are either not withheld from the paychecks of undocumented workers, or are withheld, but are kept by the employer rather than sent to the IRS. To account for this variable, the ITEP makes the assumption that there is a 50% compliance rate by employers in withholding and paying taxes withheld to the federal government. Using the 50% compliance rate, income taxes are estimated at 1.99% of average income of the undocumented worker.

What public services do undocumented workers receive?

Undocumented workers are ineligible for federal programs such as Medicare, Social Security and food stamps. They are also ineligible for Missouri's Medicaid program, subsidized child care, temporary cash assistance and housing assistance. Some children of undocumented

workers are citizens and may be eligible for some services such as food stamps and Medicaid. Often fear of deportation discourages families from applying for services for which their children are eligible.

The Pew Hispanic Center estimates that about one-sixth of undocumented individuals are children of an age that would place them in grades K-12. The total average per pupil cost in Missouri in 2005 was \$7,555^{xi}. The state portion of the total cost is approximately \$3,000 per pupil^{xii}. Therefore the cost to the state for children of undocumented workers ranges between \$17.5 million and \$32.6 million.

The remainder of the cost is borne by local districts, but is far smaller than the undocumented workers' contribution to the local economy through the purchase of goods and services.

The Missouri Budget Project is grateful to the Institute for Taxation and Economic Policy for preparing the spreadsheet of tax contributions of undocumented workers in Missouri. More information about ITEP can be found at their web site www.itepnet.org.

The Missouri Budget Project is a statewide, nonprofit, nonpartisan organization that informs the public about the state's budgetary and tax policy options and their impact on low-income Missourians.

ⁱ *Fact Sheet: The Labor Force Status of Short Term Unauthorized Workers*, Pew Hispanic Center. April 13, 2006, www.pewhispanic.org.

ⁱⁱ Size and characteristics of the Unauthorized Migrant Population: Estimates Based on the March 2005 Current Population Survey. Pew Hispanic Center, March 7, 2006. www.pewhispanic.org.

ⁱⁱⁱ *Fact Sheet: The Labor Force Status of Short Term Unauthorized Workers*, Pew Hispanic Center. April 13, 2006, www.pewhispanic.org.

^{iv} Size and characteristics of the Unauthorized Migrant Population: Estimates Based on the March 2005 Current Population Survey. Pew Hispanic Center, March 7, 2006. www.pewhispanic.org

^v Passel, Jeffrey. "Background Briefing Prepared for the Task Force on Immigration and America's Future." *Unauthorized Migrants: Numbers and Characteristics*. Pew Hispanic Center, June 14, 2005. www.pewhispanic.org

^{vi} *ibid*

^{vii} *ibid*.

^{viii} *ibid*

^{ix} *Kids Count in Missouri 2005 Data Book*. Citizens for Missouri's Children, January 2006 www.mokids.org.

^x Unpublished spreadsheet prepared by Matthew Gardner, Institute for Taxation and Economic Policy, June, 2006

^{xi} Department of Elementary and Secondary Education at

http://www.dese.mo.gov/divadm/finance/historical/2005_Current_Expenditure_Per_EP_CD_Order.pdf

^{xiii} Department of Elementary and Secondary Education at <http://www.dese.mo.gov/divadm/finance/historical/SAPEREP2.pdf>.