

New Mexico



VOICES
for Children

T

taking a closer look at tax and budget policies
affecting New Mexico's quality of life

New Mexico Fiscal Policy Project

Undocumented Immigrants in New Mexico: State Tax Contributions and Fiscal Concerns

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Introduction

Undocumented immigrants are currently the focus of contentious public debate. Even in the recently concluded 2006 legislative session, New Mexico legislators proposed several bills to address increasing concern over unauthorized immigration into the state. Proposed legislation sought to halt the growth of the undocumented population through restricting access to driver's licenses and requiring state and local law enforcement officials to enforce federal immigration laws. One memorial even went so far as to recognize "the failure of the Mexican government to cooperate with the United States in addressing the problem of illegal immigration and insisting that Mexican President Fox and Mexican government officials take immediate, meaningful, and comprehensive action to stop the rapidly increasing flow of migrants illegally crossing New Mexico's southern border."

One argument that regularly surfaces in this discussion is that American taxpayers are subsidizing undocumented persons through government expenditures. The Federation for American Immigration Reform (FAIR), an anti-immigration group, has devoted an extensive section of their website to estimating the costs to government of services provided to unauthorized immigrants. However, the FAIR site — unfairly — makes no attempt at estimating tax payments by unauthorized immigrants, which could offset the costs of government services, if any.

In addition, undocumented immigrants are prohibited by federal law from receiving government services or

transfer payments other than certain mandated services. The mandated services include primary and secondary education and emergency medical care. The services and payments undocumented immigrants are restricted from receiving are non-emergency medical care, Medicaid, Medicare, Social Security, food stamps, child care subsidies, housing assistance, and Temporary Assistance to Needy Families (TANF). Unaware of the federal restrictions, many New Mexicans believe that undocumented immigrants receive many or all of these services.

The public discussion of undocumented immigration has included much speculation on the cost of services provided to, and the tax contributions of, New Mexico's relatively small undocumented population. As pointed out in a recent study by the Georgia Budget and Policy Institute, estimates of the cost of services provided to undocumented immigrants in one specific state often rely on data and studies from other states and include the federally mandated services. In most studies, the cost of services that are not federally mandated cannot be estimated due to the absence of underlying data. Similarly, the absence of data on the undocumented population makes it difficult to estimate the tax contribution that undocumented immigrants make in a specific state.

But there is no question that undocumented immigrants pay taxes. In New Mexico, and in some other states, several types of taxes are impossible to avoid. Several

sources have provided data that, with reasonable assumptions, allow us to estimate the tax contribution undocumented immigrants make in New Mexico. Surprisingly, similar results are arrived at using the data from different sources.

Estimates of the Number of Unauthorized Immigrants in New Mexico

The U.S. Immigration and Naturalization Service (INS) provides an estimate of the undocumented population for each state, although that estimate has not varied since the 2000 Decennial Census. The INS estimates that New Mexico's undocumented population is about 40,000 – or 2 percent of the New Mexico population. Of that undocumented population, the Pew Hispanic Center,¹ estimates that 38,000 have been in the United States fewer than ten years. The average size of undocumented families is 2.3 persons, while the size of families that have been in the U.S. fewer than ten years is slightly smaller at 2.05. The smaller family size for more recent arrivals is presumably due to a heavier representation of migrants who intend to return to Mexico.

The estimate of taxes paid by undocumented immigrants is based on a national method developed by the Institute for Taxation and Economic Policy (ITEP). The ITEP methodology combines national estimates of the average income of the undocumented population with tax rates specific to the state of New Mexico. Sales tax is an indirect tax, meaning that it is levied on sellers of goods and services, who typically pass it on to consumers. Since consumers must pay the sales tax at the point of purchase, these “gross receipts taxes” are impossible to avoid.

Property taxes paid by undocumented immigrants are also impossible to avoid, since they are likewise passed from landlord to tenant within rental fees. Income taxes are more problematic, since their collection depends on whether the employer withholds taxes from an undocumented worker and then pays them to the government.

Estimates of Tax Payments Made by Unauthorized Immigrants

The method for estimating the total state and local taxes paid collectively by unauthorized immigrants begins with an estimate of those taxes paid by each family of unauthorized immigrants. According to numbers calculated by ITEP, and updated to 2004 by New Mexico Voices for Children, the average income for an undocumented family is estimated at \$25,850. Based on this average income, spending patterns for food and other necessities that are subject to gross receipts taxes, and housing patterns for undocumented immigrants, ITEP estimates New Mexico's average tax rates for that wage level are 7.4 percent of income for gross receipts tax, 0.84 percent of income for property tax (passed on to renters) and 1.4 percent for income tax. An unauthorized immigrant family with an income of \$25,850 would pay \$2,230 in sales taxes, \$254 in property taxes, and \$422 in income tax. The combined sales and property tax burden on this family would be \$2,485, while the total tax burden if income taxes are paid would be \$2,907 (Table 1).



Table 1
Annual Taxes Paid by Average Undocumented Immigrant Family
to New Mexico Using ITEP Methodology

| | ITEP (New Mexico) | | | Undoc. Families |
|--------------------------------|-------------------|--------------|-------------------------|-------------------|
| | 2nd Quintile | 3rd Quintile | Avg. 2nd & 3rd Quintile | National Average |
| Average Income | \$20,130.00 | \$31,570.00 | \$25,850.00 | \$30,140.00 |
| Sales Tax | 8.80% | 7.20% | 8.00% | 7.40% |
| Property Tax (rentals only) | 0.80% | 0.90% | 0.83% | 0.84% |
| Income Tax | 0.70% | 1.50% | 1.10% | 1.40% |
| Sales Taxes Paid | | | | \$2,230.36 |
| Property Taxes Paid | | | | \$254.31 |
| Income Taxes Paid | | | | \$421.96 |
| Total Sales & Property Taxes | | | | \$2,484.67 |
| Total Sales, Income & Property | | | | \$2,906.63 |

The first set of total tax payment estimates are built from the estimate of the number of undocumented families in the state produced by the INS. With an INS-estimated population of 40,000 and an average family size of 2.3, the number of unauthorized immigrant families is about 17,500. Multiplying the total sales and property tax payment per family of \$2,485 by the total number of undocumented families of 17,500 yields an estimate of \$43.4 million paid in sales and property taxes. If the income tax burden per family of \$422 is included, then the state would collect an additional \$7.37 million.

However, it is widely thought that income taxes are either not withheld from the paychecks of unauthorized

immigrants or that withheld income taxes do not make their way to the Internal Revenue Service or New Mexico's Tax and Revenue Department, instead staying in the bank accounts of the employers. To account for this variable, the ITEP and many other analysts reduced the estimate of personal income taxes paid by unauthorized immigrants by a half (for an estimated 50 percent tax withholding compliance rate by employers). That yields an estimate of \$3.685 million in state income tax payments by undocumented migrants. Adding the \$3.685 million to the \$43.4 million paid in sales and property taxes yields a total of \$47.085 million in taxes paid by undocumented immigrants to the state of New Mexico (Table 2).

Table 2
Total Taxes Paid by Undocumented Immigrants
to New Mexico Using INS Population Estimates

| INS Population | Undocumented Families |
|---|-----------------------|
| Undocumented Population (INS 2000) | 40,000 |
| Average Family Size (Pew 2004) | 2.29 |
| Undocumented Families | 17,467.25 |
| Undocumented Aggregate Sales & Property Tax | \$43,400,284 |
| Income Aggregate (INS) | \$7,370,480 |
| Less 50% Compliance Rate | \$3,685,240 |
| Aggregate Income, Sales & Property Tax | \$47,085,524 |

The second set of total tax payment estimates are built from the population estimate of undocumented families in New Mexico that was produced by the Pew Hispanic Center for 2004² (Table 3). The Pew Hispanic Center estimated New Mexico's undocumented immigrant population at 55,000 – higher than the INS estimates. Using an average family size of 2.3, the number of unauthorized immigrant families is about 24,000. Multiplying the total sales and property tax payment per family of \$2,485 by this number of undocumented families yields an estimate of \$59.675 million paid in

sales and property taxes. With an income tax burden per family of \$422, the total income tax payment is \$10.1 million. However, as explained above, the estimate of personal income taxes paid by unauthorized immigrants has been reduced by a half. This yields an estimate of \$5.067 million in income tax payments by undocumented immigrants. Adding the \$5.067 million to the \$59.675 million paid in sales and property taxes yields an estimate of total taxes paid in New Mexico of \$64.743 million.

Table 3
Total Taxes Paid Using Pew Hispanic Center Population Estimates

| Pew Upper Bound Population | Undocumented Families |
|--|------------------------------|
| Undoc. Pop. (Pew 2004) | 55,000 |
| Avg. Family Size (Pew 2004) | 2.29 |
| Undoc. Families | 24,017 |
| Undoc. Aggregate Sales & Property Tax | \$59,675,390 |
| | |
| Income Aggregate | \$10,134,410 |
| Less 50% Compliance Rate | \$5,067,205 |
| Aggregate Income, Sales & Property Tax | \$64,742,596 |

The Pew Hispanic Center also furnishes a separate estimate of family income paid by unauthorized immigrants who have been in the United States fewer than ten years, which is calculated using their estimates of family size. The vast majority of unauthorized immigrants have been here fewer than 10 years. When replicating the estimating procedures described above for unauthorized immigrants who have been in the United States fewer than ten years, the estimates of taxes paid are slightly higher (Table 4). The slightly higher estimates are due to the fact that the

family size for recently arrived immigrants is slightly smaller than those of longer-term immigrants, meaning there are more families relative to the population estimates produced by the INS and the Pew Hispanic Center. More families translates to more households and property taxes paid. The new estimate for sales and property taxes paid for the INS population of 40,000 is \$50.371 million. For the Pew Hispanic Center population estimate of 55,000 that same tax estimate is \$69.260 million.

Table 4
Total Taxes Paid by Families in the U.S. Fewer Than Ten Years

| INS Population | Undocumented Families | In U.S. fewer than 10 years |
|---|------------------------------|------------------------------------|
| Undoc. Population (INS 2000) | 40,000 | 40,000 |
| Average Family Size (Pew 2004) | 2.29 | 2.05 |
| Undocumented Families | 17,467.25 | 19,512.20 |
| Undocumented Aggregate Sales & Prop. Tax | \$43,400,284 | \$46,870,917 |
| Income Aggregate (INS) | \$7,370,480 | \$7,001,201 |
| Less 50% Compliance Rate | \$3,685,240 | \$3,500,600 |
| Aggregate Income, Sales & Property Tax | \$47,085,524 | \$50,371,518 |
| Pew Upper Bound Population | | |
| Undocumented Population (Pew 2004) | 55,000 | 55,000 |
| Average Family Size (Pew 2004) | 2.29 | 2.05 |
| Undocumented Families | 24,017 | 26,829 |
| Undocumented Aggregate Sales & Property Tax | \$59,675,390 | \$64,447,511 |
| Income Aggregate | \$10,134,410 | \$9,626,651 |
| Less 50% Compliance Rate | \$5,067,205 | \$4,813,326 |
| Aggregate Income, Sales & Property Tax | \$64,742,596 | \$69,260,837 |

Estimates of Total Public School Expenditures on Unauthorized Immigrants

The largest category of expenditure imposed by undocumented immigrants on state and local taxpayers is that of public education. Again making reasonable assumptions, it is possible to calculate the state's expenditures for providing education to the children who are undocumented. The per-pupil expenditure on Kindergarten through 12th grade students in New Mexico is \$8,838, with \$1,523 of this per-pupil revenue coming from the federal government, \$6,158 coming from the state government, and \$1,157 from municipal governments. New Mexico's centralized educational finance system leads to the preponderance of educational support coming from the state government's general fund.

The combined per-pupil cost of K-12 education to state and local governments is \$7,331.

The Pew Hispanic Center estimates that one-sixth of the unauthorized population is composed of K-12 school age children. Given this assumption – and the assumption that all undocumented K-12 school age children are in

school – the cost of K-12 education to state and local government is \$49.117 million when using the lower INS population of 40,000 and \$67,445 million when using the higher Pew Hispanic Center population of 55,000.

In either case, the cost of education for unauthorized students is comfortably below the tax payments their families make if we make another reasonable assumption that most of the undocumented immigrant families have been in the US fewer than 10 years, and therefore have fewer children, more families and higher tax payments (Table 5). In the case of the INS estimate, the \$50.371 million paid in taxes minus the \$49.117 million spent for education means undocumented families that have been in the U.S. fewer than ten years paid \$1.253 million more in taxes than undocumented children cost in K-12 education. In the case of the Pew Hispanic Center estimate, the \$69.260 million paid in taxes minus the \$67.445 million spent on education means undocumented families paid \$1.814 million more in taxes than undocumented children cost in K-12 education (Table 6).

Table 5
Public Expenditure on K-12 for Undocumented Students

| | Unauthorized Students (according to the Pew Hispanic Center) | | Unauthorized Students (according to INS) | | |
|---|--|---------------|--|------------|--------------|
| | 2003-04 | 2003-04 | | 2003-04 | |
| | Per Pupil | # of Students | | # Students | |
| Per-Pupil Elementary-Secondary | \$8,838 | 9,200 | \$81,309,600 | 6,700 | \$59,214,600 |
| Revenue from Federal Sources | \$1,523 | 9,200 | \$14,011,600 | 6,700 | \$10,204,100 |
| Revenue from State Sources | \$6,158 | 9,200 | \$56,653,600 | 6,700 | \$41,258,600 |
| Revenue from Local Sources | \$1,157 | 9,200 | \$10,644,400 | 6,700 | \$7,751,900 |
| Revenue from State & Local Sources | \$7,315 | 9,200 | \$67,298,000 | 6,700 | \$49,010,500 |
| *Source - NM Voices analysis based on Pew Hispanic Center | | | | | |
| The Size and Characteristics of the Unauthorized Migrant Population in New Mexico | | | | | |
| Per-Pupil Current Expenditures | \$7,331 | 9,200 | \$67,445,200 | 6,700 | \$49,117,700 |
| *Source - Public Education Finances 2004 U.S. Census Bureau, Government Division ITEP or Pew Hispanic Center Analysis of March 2004 CPS | | | | | |

Table 6
**Difference Between Taxes Paid by Undocumented Immigrant Families
and the State and Local Public Education Expenditures**

| Undocumented Families in U.S. fewer than 10 years | |
|--|--------------------|
| INS Population | |
| Taxes Paid | \$50,371,518 |
| Education Expenditures | \$49,117,700 |
| Difference | \$1,253,818 |
| Pew Upper Bound Population | |
| Taxes Paid | \$69,260,000 |
| Education Expenditures | \$67,445,200 |
| Difference | \$1,814,800 |

Conclusion

Contrary to popular belief, undocumented immigrants pay taxes and are not able to receive public benefits, except for K through 12 public education for their children and emergency health care.³ The taxes that these families pay through unavoidable sales and property taxes cover the state and local share of the public education costs.

In addition to paying their own way for education, undocumented immigrants often pay for Social Security and Medicare when those taxes are deducted from their paychecks. Neither of these social programs is available to them as they age, so in effect, they contribute to the

costs of caring for the elderly who are citizens of this country.

Finally, it is impossible to document the positive impact undocumented workers make to our state. They are often gardeners, housekeepers and nannies; they provide care for our elderly, and work as dishwashers and janitors and in other low-wage industries where they are paid less than the minimum wage. All of their efforts make life easier and richer for the rest of us. But to assume that they get a free ride in New Mexico is a mistake: they pay for the educational services they receive, and then some.

NM VOICES believes that much of the government’s approach to immigration is unnecessarily punitive. Aside from the twin memorials aimed at Mexico’s role in immigration, other anti-immigrant bills were introduced during the 2006 Legislative session. None of those bills passed. However, in December of last year, the U.S. House of Representatives passed a draconian bill that would, among other things, make it a felony to be in this country without the proper documentation and to render humanitarian aid to someone who is.

NM VOICES endorses the Principles for Comprehensive Immigration Reform as set forth by the New American Opportunity Campaign (NAOC), which follows six principles:

- 1) Immigration reform must be comprehensive
- 2) Immigration reform must provide a path to citizenship
- 3) Immigration reform must protect workers
- 4) Immigration reform must reunite families
- 5) Immigration reform must restore the rule of law and enhance security
- 6) Immigration reform must promote citizenship and civic participation and help local communities

For the complete text visit http://www.cirnnow.org/content/en/about_principles.htm

Federal income taxes that do make it to the state and IRS are filed under Social Security numbers that are either invalid or belong to someone other than the undocumented employee. It is worthwhile to note that in 2005 the Social Security Administration received \$7 billion in benefits that were paid under invalid SS numbers. This is money that undocumented workers will never collect. Likewise, few – if any – undocumented workers ever file for state or federal income tax refunds. Moreover, Immigration and Customs Enforcement officials have targeted employers who provide the SSA with numerous invalid SS numbers, which has resulted in the arrest of undocumented immigrants.

(Endnotes)

¹ The Pew Hispanic Center was founded in 2001 as a non-partisan research organization supported by The Pew Charitable Trusts. Its mission is to improve the understanding of the U.S. Hispanic population and chronicle the growing impact of the Hispanic and Latino populations on the entire nation. It is a nonpartisan “fact tank.”

² The Pew Hispanic Center estimates are based on a well-established methodology applied to data from the March 2005 Current Population Survey. A full report on the estimates, including a description of the methodology, can be found in *Size and Characteristics of the Unauthorized*

Migrant Population in the U.S.: Estimates Based on the March 2005 Current Population Survey (<http://pewhispanic.org/reports/report.php?ReportID=61>).

³ While not discussed in this paper, the costs of emergency health care for undocumented people is often re-captured by the University of New Mexico Hospital, which is the state’s public hospital. UNMH policy requires payment from undocumented people for health care delivered.



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