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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.

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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

**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%

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, 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

**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%

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 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

**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

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. ■

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## The Cultural Defense

The man accused of murdering a Chinese restaurant owner in the Republic Plaza Food Court is using an unusual defense at his sanity trial. Yi Ching Chou, 48, claims that an ongoing dispute with restaurant owner Wen Cheng Hsieh, 43, caused him to repeatedly "lose face," provoking the mental state that led to the showdown at the food court April 27, court documents say. Chou's sanity trial is underway in Denver District Court.

A court-appointed psychiatrist has found Chou to be legally sane and competent to stand trial. But a defense psychologist says Chou is insane and suffering from post-traumatic stress syndrome stemming from severe beatings and canings he received as a child. The defense plans to call Hsein Sheng Ma of San Francisco to testify that Hsieh's death can only be understood in the context of Chinese culture. He said Chou's loss of face began with a fight between the two men in January 1993 in which Hsieh punched Chou.

"This would have been considered by Mr. Chou as a great loss of face and self-respect," Ma wrote in a court document. After the fight, Chou repeatedly asked Hsieh to pay his medical bills, which, Ma said, could have resolved the situation. "This would be considered an attempt to save face, Ma said.

Hsieh, however, characterized Chou's efforts as extortion. Chou was forced to save face by seeking revenge, Ma said.

The prosecution will call Freda Kau-Pong Cheung, a psychologist at the University of California at Los Angeles. She will testify that Chinese culture emphasizes harmony, not violence, and that loss of face never justifies murder.

— Sue Lindsay, *Rocky Mountain News*, March 1, 1995



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# Immigration as a National Security Issue

By John Martin

The term national security has in the past usually conjured up images of the threat of nuclear warfare, espionage or of being cut off from vital petroleum supplies. Most of those images were linked to the Cold War environment, and — like the Cuban missile crisis — were real at the time, but today have lost much of their former relevance. Does that mean that national security is a less important concern now than a decade ago?

No, it does not, but the agenda has changed. To some extent, the end of the Cold War has facilitated a focus on other international conditions that are every bit as troubling to the long-term U.S. national interest as the former agenda — albeit less apocalyptic. On that new agenda, the issues of population, environment and migration occupy prominent positions. It is not that they are new issues, but rather that their significance was overshadowed by our previous preoccupations.

## A New Security Focus

If we think of the national security agenda as composed of issues that have the potential to pose threats to the life and/or lifestyle of significant numbers of Americans, we have seen several recent foreign policy challenges — like Somalia, in which U.S. troops were committed to foreign peacekeeping operations. We also have experienced recent migration flows that have directly affected the United States, e.g., the influxes from Haiti and Cuba. We are likely to see more of these situations in the future.

The past decade has produced profound geopolitical change. There have been positive changes in regional flashpoints like the Middle East, South Africa and Central America, where there is now a prospect of long term stability and economic development based on the rule of law. But, on the other hand, the end of the Cold War has removed some of

the long-standing discipline on foreign leaders, in effect creating a partial power vacuum. And, into this void, new actors have moved to try to take advantage of new opportunities. At the same time, the new democracies of this hemisphere are still frail, and the United States has not shown the ability, either alone or in tandem efforts with European allies or the United Nations, to react surely and effectively to chaos or bullying. We are faced with violence and troubling political instability in parts of the former Soviet Union and the former Yugoslavia, in African countries such as Liberia, Somalia and Rwanda, and with international aggression by countries like Iraq. In this hemisphere we find our troops committed to peacekeeping in Haiti and acting as refugee camp guards at the base at Guantanamo and in Panama.

## What Are the Implications for the United States?

How do these international events affect the United States, other than by evoking our sympathies? There are, of course, pocketbook issues. But beyond questions of fiscal resources, our concern for the plight of others holds direct implications for the country, because, in addition to sending peacekeeping troops, foodstuffs or other emergency assistance, we also often end up accommodating as refugees or temporary settlers in the United States persons fleeing the chaos.

Even if we were to shift our focus more to helping displaced persons and refugees abroad, rather than bringing or admitting them here, still we are likely to have to deal domestically with protection issues caused by international crises. There were nearly 450,000 foreign students in the United States in the past school year, and there were about 60 countries that contributed over 1,000 students each. This number is apart from tourists or business people or