

POLITICO

Undocumented workers, meet the IRS

By [Rachael Bade](#)

November 20, 2014

Undocumented workers aspiring to be part of the new White House immigration program are about to meet the Internal Revenue Service under President Barack Obama's sweeping plan unveiled Thursday night.

But anyone expecting a windfall from — or big drain on — the Treasury should think again.

Obama's new immigration order, which will shield about 5 million undocumented workers from deportation, will have tax implications that are sure to irk Republicans who are already calling foul on his bid to bypass Congress to ease immigration laws.

That's because most of that group of 5 million will be adults with U.S.-born children, meaning they'll theoretically be able to claim up to \$1,000 per child for child tax credit, or several thousand dollars as part of another tax credit for the working poor, experts said.

But the 5 million will also pay a modest amount of new taxes to Uncle Sam that experts said will more than make up for the credits the government pays to them — potentially even creating a small plus-up for the Treasury.

“You would see a gain in earnings, in tax compliance, and some gain in the claim of tax credits — and the net of all that would almost surely be positive,” said David Kallick, a senior fellow at the immigration research initiative at the Fiscal Policy Institute.

Indeed, the Congressional Budget Office scored the Senate's landmark 2013 immigration overhaul as reducing the deficit by nearly \$200 billion over a decade — in part because of nearly \$460 billion in projected new tax revenue.

But that was based on a comprehensive immigration reform package that would have given legal status to 8 million of the current undocumented population and increased permanent residents in the U.S. by more than 10 million over a decade.

Obama's plan will be a fraction of that, and under much different circumstances.

Rather, the effects will likely be more modest on the federal and state budgets, and anyone who says otherwise is “mostly posturing,” said Madeline Zavodny, an economics professor with immigration expertise at Agnes Scott College.

In fact, studies show that about half of the nearly 12 million undocumented workers already pay some type of taxes, whether it be with a fake Social Security number, in order to keep a job, or by other means.

Obama's action will mean that even more undocumented workers will "start paying their fair share in taxes," as a White House outline on the program reads.

Indeed, the phrases "fair share" and "taxes" appear four times together in the document — but the outline doesn't give much detail beyond that.

Most experts, however, assume the 5 million will pay everything that a typical U.S. citizen would pay: payroll, income, sales and property taxes.

But they'll also likely get to claim the child tax credit and the earned income tax credit, although the Obama administration said they won't get Obamacare tax credits or certain welfare benefits.

Muzaffar Chishti of the Migration Policy Center said the 5 million will almost entirely consist of adults with U.S.-born children, so they'll easily qualify.

Because claiming it doesn't require a Social Security number, some undocumented workers are already claiming the child tax credit, a benefit of up to \$1,000 per child, if their child is an American citizen. The Treasury inspector general for tax administration in 2011 said such undocumented immigrants claimed more than \$4 billion, four times the \$1 billion they claimed in 2005.

The report fueled criticism from Republicans, who would go on to introduce legislation barring undocumented workers from claiming those tax benefits.

Some of the 5 million in theory would also qualify for the EITC, which gives more to poor working adults who have children. A single mother of three earning \$17,000 could get back as much as \$6,000 to help her take care of her children, for example, according to a [Tax Policy Center chart](#).

These are some of the expenditures that have skeptics concerned about the cost of immigration reform over the long haul.

"I fear the long-run impact on overall fiscal policy will be negative," said Dan Mitchell, of the conservative Cato institute, who questions the "net effect when you look at the impact of amnesty on tax revenues and the burden of government spending."

He said he does not "particularly view additional tax receipts as a desirable goal" and is "unimpressed by the argument that there will be more taxable business income because of lower wages."

Some critics worry a flood of new workers will lower wages.

Zavodny is expecting the opposite, as are a number of experts — at least for the immigrants themselves.

She said immigrants' earnings "usually increase when they move from illegal to legal status" and that would also mean more taxes.

She was one expert who is expecting a big fight on the EITC in Congress, should immigrants be allowed to claim them: "I would guess Congress will fight that tooth and nail."

Overall, experts were unsure of how much revenue state coffers and the Treasury can expect from the new program.

The left-leaning Institute on Taxation and Economic Policy in [2013 released](#) a report showing a \$2 billion gain in state revenue from immigration reform — even after tax credits were taken into consideration.

Matt Gardner, ITEP executive director, said the new program's effects won't be quite as big, but it will still be a net gain. That's because immigrants already pay a bunch of state and local tax.

"When you go to the store and buy something, no one asks if you're a citizen ... they're collecting just because you're in the store," he said. "On the property tax front, your landlord ... passes [the property tax] to you in the form of higher rent."

In that regard, states with income taxes may see a bigger gain than states solely relying on sales tax that are already being paid by this subgroup.

The federal government, which depends mostly on income and payroll taxes, would see the bigger increase in revenue, Gardner says.

But even there it is tough to gauge.

The CBO's [Senate bill immigration score](#) showed full comprehensive immigration reform reducing the deficit because the cost of discretionary spending and tax credits for immigrants was offset by the \$459 billion in new tax revenue.

The gains from the new changes would be probably less than half of that, Kallick speculated, not just because it doesn't address all undocumented workers but also because there's another big difference between the Senate bill and the White House action: The Senate bill allowed for more worker permits for educated foreigners with presumably higher-paying skills to come to the U.S. to work, meaning they'd pay even more in taxes.