

# IMMIGRATION, INCOME TAX, AND SOCIAL ASSISTANCE

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Examining the fiscal contribution of foreign-born and native-born households in the U.S.

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# Immigration, Income Tax, and Social Assistance

## Examining the fiscal contribution of foreign-born and native-born households in the U.S.

### Executive Summary:

This research brief examines the fiscal contribution of foreign-born and native-born households in the United States. This examination is accomplished by comparing income tax contributions and social assistance expenditures<sup>1</sup> within and between each household group. We make comparisons using data from the 2013 Current Population Survey (CPS), which is produced by the U.S. Bureau of Labor Statistics and the U.S. Census Bureau.

The findings presented in this research brief indicate that in 2012, foreign-born households contributed approximately \$106 billion to state and federal income tax. After accounting for the social assistance spent on these households, their contribution remained at \$61 billion, or \$3,476 per foreign-born household. These figures are compared to the income tax contribution of native-born households, which approximated \$871 billion in 2012. After accounting for social assistance spent on these households, their contribution remained at \$688 billion, or \$6,554 per native-born household.

Findings also demonstrate that the average income tax contribution of foreign-born households was positively correlated with their length of tenure in the United States. Conversely, the median social assistance spent on foreign-born households was negatively correlated with years of residence in the United States. This suggests that the fiscal contribution of foreign-born households increases the longer these households remain in the country.

Further findings indicate that the fiscal contribution of foreign-born and native-born households greatly varied among states. In 2012, there were nine states in which foreign-born households contributed a larger share of their income to state and federal taxes than native-born households. Moreover, there were eight states in which the share of income tax dollars contributed by foreign-born households was larger than the share of social assistance spent on these households.

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*“...the social assistance spent on foreign-born households was negatively correlated with years of residence in the U.S.”*

**Introduction:**

As comprehensive immigration reform remains an on-again off-again item on the U.S. Congressional agenda, many citizens are concerned about the fiscal costs associated with this reform. Those in favor of comprehensive immigration reform argue that the national economy would ultimately benefit from such legislation. They support this argument with the claim that the majority of immigrants and their families are in the labor force, and thus contribute to the economic prosperity of the nation.

Alternatively, a number of citizens and groups oppose comprehensive immigration reform on the grounds that it would cost native-born tax payers a great deal of money. The rationale for this argument is rooted in the claim that the majority of immigrants, especially undocumented immigrants, are incapable of providing for themselves and thus rely upon social assistance for survival.

Research examining the fiscal problems of immigration is similarly divided. For instance, several studies (Auerbach and Oreopoulos 1999; Bolin 2006; Eaton 2013a, 2013b; Institute on Taxation and Economic Policy 2013; Simon 1989; Storesletten 2000) find that immigrants deliver fiscal benefits to U.S. society. This research argues that immigrants provide fiscal benefits through hard work, a high employment rate, and a high rate of entrepreneurialism, which allow them to generate taxable income streams. Storesletten (2000) has suggested that immigrants may be able to ameliorate the cost of an aging baby boom generation through their income tax contributions.

Other studies (Borjas 1999; Borjas and Hilton 1996; Camarota 2011; Hansen 2003; Rector and Richwine 2013) find that immigrants place an undue burden upon U.S. society. These studies argue that when compared to native-born citizens, immigrants are characterized by a relatively low socioeconomic status. Because of this disparity in socioeconomic status, these studies maintain that native-born citizens inevitably contribute a greater share of resources to the public good, while immigrants consume a greater share of these resources.

This research brief evaluates these arguments. It accomplishes this through an analysis of data that measure the fiscal contributions of native-born and foreign-born households in the United States during 2012. The fiscal contributions of native-born and foreign-born households are compared to explore whether foreign-born households are a fiscal boon or burden for U.S. society.

*“...immigrants provide fiscal benefits through hard work, a high employment rate, and a high rate of entrepreneurialism...”*

*“...in order to properly understand the economic decisions that individuals make, and their consumption practices, it is necessary to analyze these decisions and practices at the household level.”*

### **Noting the legal parameters of taxation, social assistance, and immigration:**

Understanding how U.S. law determines tax contributions and social assistance spending among foreign-born citizens is critical to revealing the differences in the tax to social assistance ratio. With respect to tax law, immigrants are sorted into two different legal categories: “nonresident alien” or “resident alien” (see Internal Revenue Service 2014). A resident alien is a foreign-born individual who has a green card, or a foreign-born individual who has been physically present in the United States for 183 days across a period of three years. Nonresident aliens are foreign-born individuals who do not have a green card and have not lived in the United States for 183 days across a period of three years.

Immigrants in either category are required to report their income to the Internal Revenue Service (IRS) and to contribute a share of that income to state and federal income tax (see Internal Revenue Service 2014)<sup>2</sup>. Nonresident aliens must pay taxes on income earned in the United States. Resident aliens must pay taxes on income earned worldwide. This means that resident aliens are required to pay taxes on interest, dividends, wages, rental income, royalties, and any other form of compensation, regardless of the country in which it was earned.

Social assistance includes the receipt of funds from a variety of social programs, such as the Supplemental Nutrition Assistance Program (SNAP), the Women, Infants and Children program (WIC), the Supplemental Security Income program (SSI), home heating assistance programs, workers compensation programs, and free or reduced price school lunch programs. Generally, foreign-born individuals are only eligible for social assistance after they have lived in the U.S. for at least five years (see Singer 2004). There are exceptions to this legislation. Refugees, asylees, and foreign-born individuals who serve in the military are eligible for social assistance even if they have not lived in the United States for five years. Also, the children of all immigrant parents are eligible for social assistance if they were born in the U.S. and thus are U.S. citizens by birth.

### **On the importance, and limitations, of households as units of analysis:**

This study analyzes the fiscal contribution of households rather than the fiscal contribution of individual persons. Households are analyzed as units of analysis because key sociological works (see Massey, Durand, and Malone 2003; Wallerstein 2011) maintain that individual persons make economic decisions, and consume economic resources, in a household context. Thus, in order to properly understand the economic decisions that individuals

make, and their consumption practices, it is necessary to analyze these decisions and practices at the household level.

The status of a household was determined by the nativity of its respective household head. As such, native-born households were defined as those households with a native-born head, while foreign-born households were defined as those households with a foreign-born head. Households were defined in this manner because the head of a particular household, such as the homeowner or leasee, typically plays a central role in determining the economic decisions and consumption practices of that household.

It is important to note, however, that this method of household identification is not without its limitations. For instance, in assigning the nativity status of a household head to their respective household, we have generalized that status to all individuals within that household, even if those individuals were characterized by a nativity status that differs from the household head. This means that households that contain a foreign-born head and native-born cohabitators are counted as foreign-born households (and vice versa).

This limitation is important to keep in mind because CPS data estimates that in 2012, 39 percent of all foreign-born households contained at least one native-born cohabitor who was 16 years of age or younger. Moreover, CPS data estimates that 0.2 percent of all native-born households contained at least one foreign-born cohabitor who was 16 years of age or younger during the same year. Among these households, it is possible that the majority of social assistance was spent on these cohabitating youths, rather than the household head. Unfortunately, we can neither confirm or negate this possibility because CPS data measures the consumption of social assistance at the household level, rather than among individual persons.

If these cohabiting youths have consumed the majority of social assistance in each household, it stands to reason that our method for identifying foreign-born and native-born households has overestimated the social assistance spent on the foreign-born, while underestimating the social assistance spent on the native-born. This also suggests that we may be underestimating the fiscal contribution of foreign-born households, while overestimating the contribution of native-born households.

### **Observing the fiscal contributions of foreign-born and native-born households:**

**Table 1** compares the state and federal income tax liability and social assistance spent on foreign-born and native-born households during 2012. As

*“...we may be underestimating the fiscal contribution of foreign-born households while overestimating the contribution of native-born households.”*

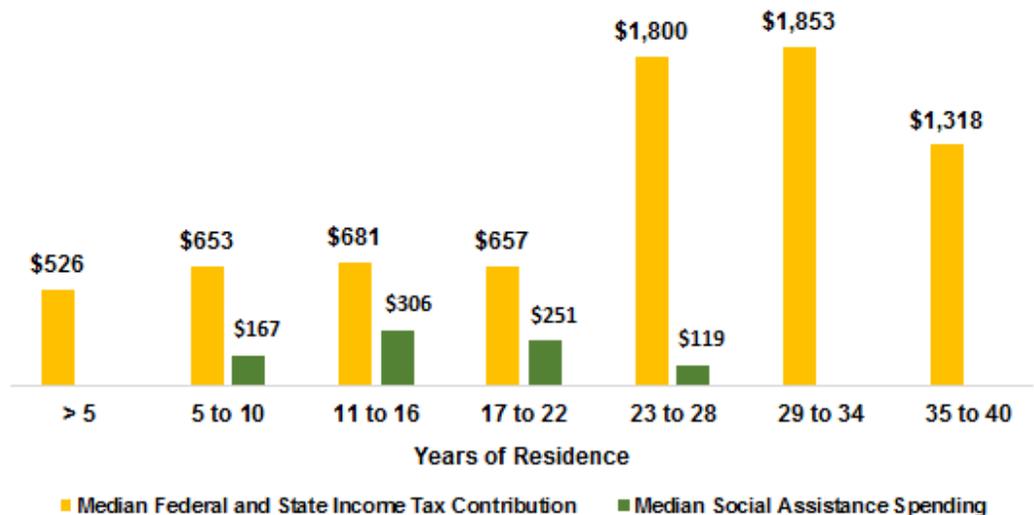
this table indicates, the income tax contribution and social assistance spent on foreign-born households were dwarfed by that of native-born households in 2012. This disparity is expected because foreign-born households accounted for only 14.3 percent, or an estimated 17.5 million of all U.S. households in that year.

<b>Table 1. The Balance Sheet</b>	Foreign-Born Households (N=17,576,587)	Native-Born Households (N=104,972,827)
Gross Income Tax Revenue (\$ billions)	106.9	871.2
Social Assistance Spending (\$ billions)	45.8	183.2
Net Fiscal Contribution (\$ billions)	61.1	688.0
Average Net Fiscal Contribution per Household (\$ thousands)	3.5	6.5

*“...the median income tax contribution of foreign-born households increases with years of residence in the United States.”*

Given the minority proportion of immigrant households in the U.S., it makes little sense to expect a larger raw income tax contribution, or a larger raw amount of social assistance, associated with the foreign-born in comparison to the native-born. The table also indicates that foreign-born households managed a net income tax contribution of \$61.1 billion in 2012, which takes into account the social assistance spent on those households. This amounts to an average income tax contribution of \$3,476 per foreign-born household. This contribution may seem small in comparison to the income tax contribution of the native-born, but the combined contribution of all immigrant households is comparable to the operating budgets of major federal governmental agencies, such as the U.S. Department of Homeland Security.

**Figure 1: Median Social Assistance Spending and Median Income Tax Contributions Among Foreign-Born Households by Years of Residence**



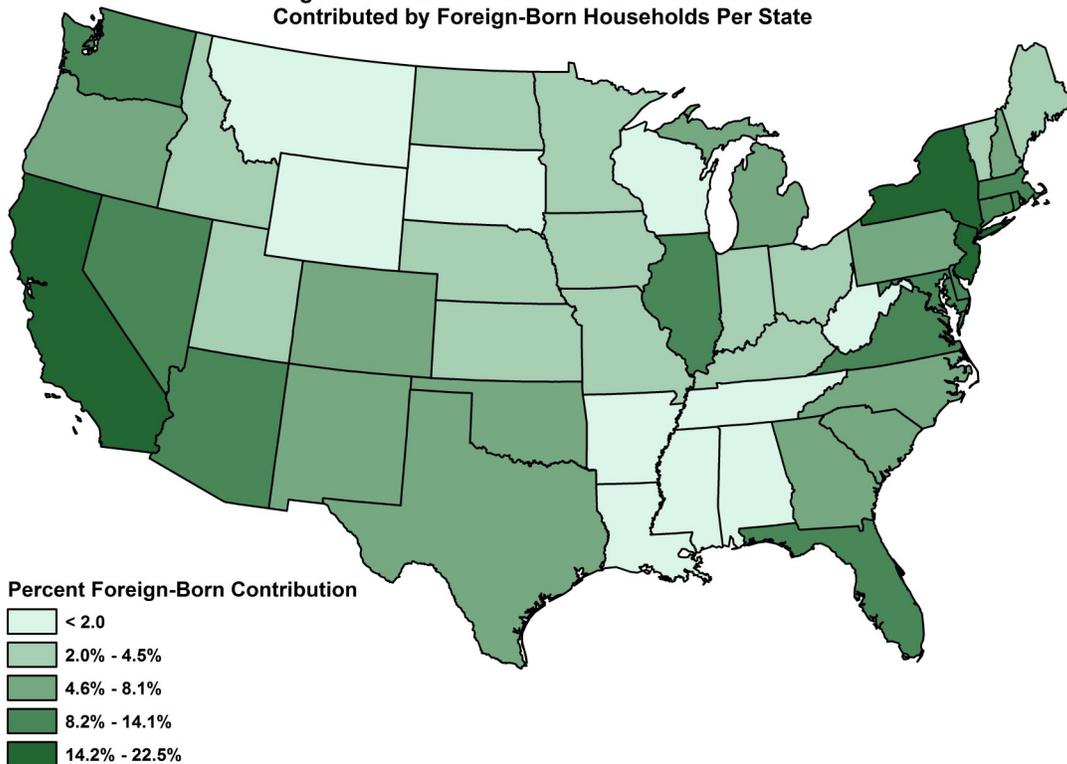
**Figure 1** demonstrates that the median income tax contribution of foreign-born households increases with years of residence in the United States. This figure also shows that after five years of residence, foreign-born households begin to receive some social assistance. However as they become better integrated the median social assistance spent on these households falls under \$150. These trends suggest that the net fiscal contribution of foreign-born households will increase the longer immigrants remain in the United States.

**Locating the fiscal contributions of foreign-born and native-born households:**

Significant variation is observed when comparing the fiscal contribution of foreign-born and native-born households at the state level in 2012. As can be seen in **Figure 2**, native-born households accounted for a larger share of income tax payments in every state when compared to foreign-born households. In fact, the percent of total income tax contributed by foreign-born households did not exceed 22.5 percent per state, and it only reached that threshold in California, which has a larger foreign-born population than other states. This means that among individual states, native-born households are providing the majority of income tax revenue. This is not surprising because native-born households far outnumbered foreign-born households per state in 2012.

*“...there were nine states in which foreign-born households contributed a larger share of their income to state and federal taxes when compared to native-born households.”*

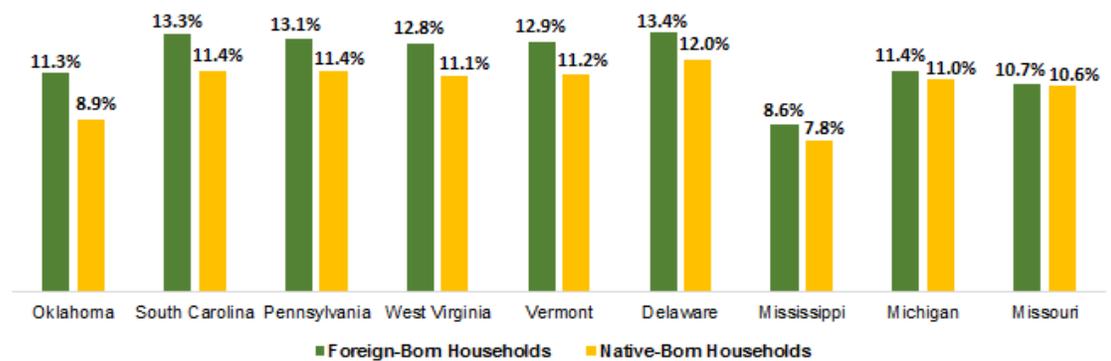
**Figure 2: Percent of State and Federal Income Tax Contributed by Foreign-Born Households Per State**



Relative to income per household, income tax contributions from native-born households do not completely outpace those from foreign-born households. As demonstrated by **Figure 3** (see page 7), there were nine states in which foreign-born households contributed a larger share of their income to state and federal taxes when compared to native-born households. This difference was largest in Oklahoma, where foreign-born households contributed two percent more of their income to federal and state taxes relative to their native-born counterparts.

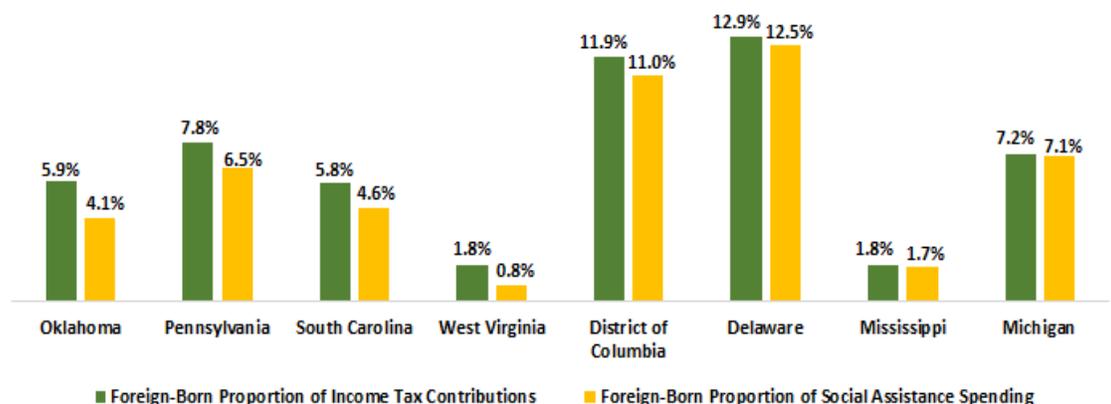
The second and third largest differences were observed in South Carolina and Pennsylvania, where foreign-born households contributed just under two percent more of their income to state and federal taxes when compared to native-born households.

**Figure 3: States in which Foreign-Born Households Contributed a Larger Share of their Income to State and Federal Tax in Comparison to Native-Born Households**



**Figure 4** demonstrates that there were eight states in which the share of total income tax contributed by foreign-born households was larger than the share of social assistance spent on those households. In these eight states the income tax contribution of foreign-born households ranged between 0.1 and 1.8 percent greater than the social assistance spent on foreign-born households.

**Figure 4: States in Which Foreign-Born Household Income Tax Contributions were Larger than Social Assistance Expenditures on Foreign-Born Households**

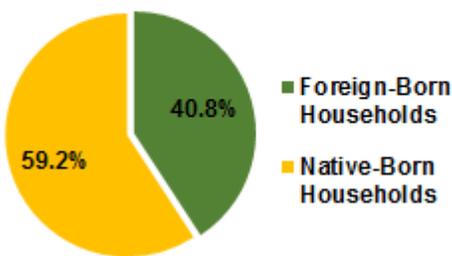


*“...there were eight states in which the share of total income tax contributed by foreign-born households was larger than the share of social assistance spent on foreign-born households.”*

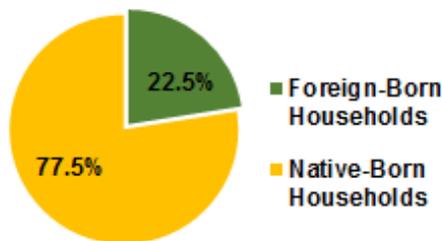
In each of the remaining 42 states, the share of social assistance dollars spent on foreign-born households was larger than the share of income tax dollars contributed by foreign-born households. When viewed from this angle, foreign-born households appear to have taken more than they contributed. It is important to point out, however, that the raw number of income tax dollars contributed by foreign-born households was much larger than the raw number of social assistance dollars spent on those households. Thus it is possible to observe a positive fiscal contribution from foreign-born households even though they received a larger share of total social assistance dollars relative to the share of total income tax dollars they contributed.

Consider the state of California as an example. As demonstrated by **figures 5 and 6**, immigrant households received approximately 41 percent of total social assistance dollars while contributing approximately 23 percent of total income tax dollars.

**Figure 5: Share of Total Social Assistance Dollars Received**



**Figure 6: Share of Total Income Tax Dollars Contributed**



*“..foreign-born households in California provided a net fiscal contribution of \$16.7 billion...”*

According to these figures, one might assume that foreign-born households in California were taking more than they were contributing. This was not true. As demonstrated by **table 2**, foreign-born households in California provided a net fiscal contribution of approximately \$16.7 billion even though they received a larger share of social assistance dollars relative to the share of total income tax dollars they contributed.

Table 2. The Balance Sheet for California	Foreign-Born Households	Native-Born Households
	(N=4,273,762)	(N=9,262,730)
Gross Income Tax Revenue (\$ billions)	29.5	101.6
Social Assistance Spending (\$ billions)	12.8	18.6
Net Fiscal Contribution (\$ billions)	16.7	83.0
Average Net Fiscal Contribution Per Household (\$ thousands)	3.9	9.0

**Discussion and Conclusion:**

The findings from this research demonstrate that, after accounting for social assistance spending, foreign-born households provided a net income tax contribution of \$61.1 billion in 2012. This was much smaller than the net income tax contribution provided by native-born households, but it was still comparable to the budget of large government agencies, including the U.S. Department of Homeland Security.

Furthermore, this research brief has shown that the income tax contribution of foreign-born households will increase the longer these households remain in the United States.

This research also found that the share of total income tax dollars contributed by foreign-born households varied across states. The share was larger in states with relatively large immigrant populations, and smaller in states with relatively small immigrant populations. Moreover, our analysis identified nine states in which foreign-born households contributed a larger share of their income to income tax in comparison to native-born households during 2012. It was also demonstrated that in eight states foreign-born households contributed a larger share of total income tax dollars when compared to the share of social assistance spent on these households.

In most states, foreign-born households are paying into public funds at a lower rate than that of their native-born counterparts. To some this is a cause for alarm, but the fact remains that foreign-born households are more than paying for themselves at the state and national level. What's more, we see that as immigrants and their children become better integrated into the U.S. economy and society their contribution increases.

When considering the fiscal contribution of foreign-born households comprehensively, it is clear that foreign-born households are a fiscal boon for U.S. society. These households contribute more than enough to pay for the social assistance that is spent on them, and the amount of income tax dollars left over is substantial. Furthermore, evidence suggests this contribution will grow over time. Thus, comprehensive immigration reform would not be a burden on U.S. society, but rather would facilitate the integration of immigrants and further increase their economic contributions in their new home.

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*“..after accounting for social assistance spending, foreign-born households provides a net income tax contribution of \$61.1 billion in 2012..”*

**Notes:**

1. This research calculated social assistance spending by summing, at the household level, benefits provided by nine different sources: 1) the Supplemental Nutrition Assistance Program (SNAP), 2) the Women, Infants, and Children program (WIC), 3) the Supplemental Security Income program (SSI), 4) home heating assistance programs, 5) housing subsidy programs, 6) free or reduced price lunch programs, 7) unemployment programs, 8) workers compensation programs, and 9) the Earned Income Tax Credit program (EITC).

2. This research brief does not evaluate the contribution of undocumented immigrants because the Current Population Survey does not distinguish between immigrants of documented and undocumented status.

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