

Immigrants in Iowa

*What New Iowans Contribute
to the State Economy*

Heather Gibney
Peter S. Fisher

July 2014

The Iowa Policy Project

20 E. Market Street, Iowa City, Iowa 52245

(319) 338-0773

www.iowaPolicyProject.org

Authors and Acknowledgments

Heather Gibney is a Research Associate at the Iowa Policy Project, joining the organization in 2012. She received her master's degree in Public Policy from the University of Northern Iowa and undergraduate degrees in Psychology and Criminal Justice from the University of Iowa and Mount Mercy University. Gibney's focus at the Iowa Policy Project is on state budget issues and other issues that illustrate the impact of public policy on Iowa's working families.

Peter S. Fisher is Research Director of the Iowa Policy Project and professor emeritus of Urban and Regional Planning at the University of Iowa. A national expert on public finance, Fisher has served as a consultant to the Iowa Department of Economic Development, the State of Ohio, and the Iowa Business Council. His reports are regularly published in State Tax Notes and refereed journals. His book Grading Places: What Do the Business Climate Rankings Really Tell Us? was published by Good Jobs First in 2013. Fisher holds a Ph.D. in Economics from the University of Wisconsin-Madison.

We gratefully acknowledge generous funding support provided through the **Center on Budget and Policy Priorities**, as well as technical support provided by David Dyssegaard Kallick of the Fiscal Policy Institute in New York, and by the Institute on Taxation and Economic Policy. Policy recommendations are solely the perspective of the authors and the Iowa Policy Project.

The Iowa Policy Project

Formed in 2001, the Iowa Policy Project is a nonpartisan, nonprofit organization. Its principal office is at 20 E. Market Street, Iowa City, IA 52245.

The Iowa Policy Project promotes public policy that fosters economic opportunity while safeguarding the health and well-being of Iowa's people and the environment. By providing a foundation of fact-based, objective research and engaging the public in an informed discussion of policy alternatives, the Iowa Policy Project advances accountable, effective and fair government.

All reports produced by the Iowa Policy Project are made available to the public, free of charge, via the organization's website at <http://www.iowapolicyproject.org>.

The Iowa Policy Project is a 501(c)3 organization. Contributions to support our work may be tax-deductible. We may be reached at the address above, by phone at (319) 338-0773, by email at ipp@lcom.net, or through other contacts available at our website.



The Iowa Policy Project

20 E. Market St. • Iowa City, Iowa 52245 • (319) 338-0773
www.iowapolicyproject.org

July 2014

EXECUTIVE SUMMARY

Immigrants in Iowa

What New Iowans Contribute to the State Economy

By Heather Gibney and Peter Fisher

Immigrants are important to Iowa and its economy. Like other working Iowans, immigrant workers generate income, spend money as consumers, and contribute to state and federal revenues as taxpayers. Like other business owners, immigrants who start businesses contribute to local economic development and job creation. And new immigrants, who tend to be younger than the general population and come from a diverse range of ethnicities, experiences, and educational backgrounds, contribute to the vitality and culture of Iowa communities. These contributions would increase further if immigration reform were to make work authorization or a path to citizenship possible for the subset of Iowa immigrants who currently lack such documents.

Iowa is home to a diverse population of about 130,000 immigrants, a broad category defined as those born outside the United States. This number includes naturalized citizens, refugees, legal permanent residents (green card holders), those with work or student visas, and undocumented immigrants. In total, immigrants make up about 4.3 percent of the Iowa population, account for 4.5 percent of the state's economic output and represent 1 in 20 Iowa workers.

This report estimates the economic impact of Iowa's immigrant population as a whole, and also provides new analysis of the contributions that the subset of Iowa's immigrants who are undocumented make to tax revenues. Like other Iowans, immigrants contribute payroll taxes as workers, sales taxes as consumers, property taxes as homeowners or renters, and fees that support local utilities. What's more, in many cases these taxes pay for programs and services that immigrant taxpayers themselves cannot access due to their immigration status.

Among the report's findings:

- Immigrants contribute to Iowa's economy both as workers and employers.
- The majority of Iowa's immigrants are of prime working age, and are lowering the average age of the state's population and increasing overall rates of workforce participation.
- Undocumented immigrants annually pay an estimated \$64 million in Iowa state and local taxes, increasing revenue available for public programs and services, including many that immigrant families are unable to access themselves.
- Immigrants in Iowa work in a wide variety of occupations, and half of immigrant families make over \$58,000. Like most Iowa families, the majority of immigrant families have incomes between \$20,000 and \$80,000.
- Compared to Iowa's overall population, immigrants are both more likely to have less than a high school education, and more likely to have an advanced degree. Yet at all education levels, Iowa immigrants appear somewhat disadvantaged in the labor market and earn less when compared to native-born counterparts with equivalent levels of education.

Immigration has little impact on overall wage levels of non-immigrants. In part this is because immigrants, like native-born youth entering the labor force, consume goods and services, which contributes to job creation, and in part because immigrants and native-born workers often have different job specialties and the jobs they perform are often complementary and expand the economy's productive capacity. Where wage depression occurs, it is most likely due to exploitation of undocumented workers who are made vulnerable to a variety of employment abuses that can depress their wages.

Immigrants in general are more likely than native-born Iowans to be working, because work is what drew most of them to this country and because they tend to be younger than the general population. While 60.5 percent of native-born Iowans are of prime working age (between 18 and 64), 83.2 percent of immigrants fall into that age group. Immigration has thus helped to moderate Iowa's aging population and to increase the overall number of Iowa workers who generate income and pay taxes to support schools and other services for our children, while also contributing to programs such as Social Security and Medicare that support retirees.

Our report looks specifically at the economic impact of the subset of Iowa immigrants who are undocumented, providing new estimates of tax payments made annually by undocumented immigrants. We then contextualize these contributions in relation to the specific types of public programs and services undocumented immigrant households are able (and in most cases unable) to access themselves. Recent estimates suggest that undocumented immigrants represent about 2.5 percent of the state population — about 75,000 persons.

While barred from accessing nearly all federal public assistance, undocumented immigrants in Iowa contribute about \$37 million annually in federal payroll taxes — supporting Social Security and Medicare, for which they are ineligible. Employers contribute another \$45 million on their behalf in payroll taxes and in contributions for unemployment insurance that undocumented immigrants are barred from receiving.

Undocumented immigrants are also ineligible for many state and local government programs. Yet the average undocumented immigrant family pays state sales, excise, and income taxes (at least half have income taxes withheld from their paychecks) amounting to about three-fourths of what citizens would pay at the same income level. Undocumented residents are barred from services that account for about one-fourth of the state budget.

Immigration reform enabling work authorization and a path to citizenship for current undocumented residents would bring benefits both to immigrants and the state generally. Legal work status would open up better job opportunities for undocumented immigrants, make it more worthwhile to invest in worker education and training, and reduce immigrants' vulnerability to wage depression and unfair competition. This would benefit all workers, including citizens who would no longer compete for jobs with workers whose immigration status makes them more likely to suffer wage theft or other abuses. We estimate higher wages accompanying legal work status attained through immigration reform would boost Iowa state and local tax contributions from currently undocumented immigrants by an estimated \$16.5 million.

Intense debates in Iowa on the best way to reform immigration laws in the United States should be grounded in an accurate understanding of Iowa's immigrant population. They should recognize the contributions immigrants make to the state's workforce, economy, tax revenues and communities. It is hoped that this report will go some way toward creating that understanding.

Heather Gibney is a Research Associate and Peter Fisher is Research Director at the Iowa Policy Project.



The Iowa Policy Project

20 E. Market St. • Iowa City, Iowa 52245 • (319) 338-0773
www.iowapolicyproject.org

July 2014

POLICY BRIEF

Immigrants in Iowa

What New Iowans Contribute to the State Economy

By Heather Gibney and Peter Fisher

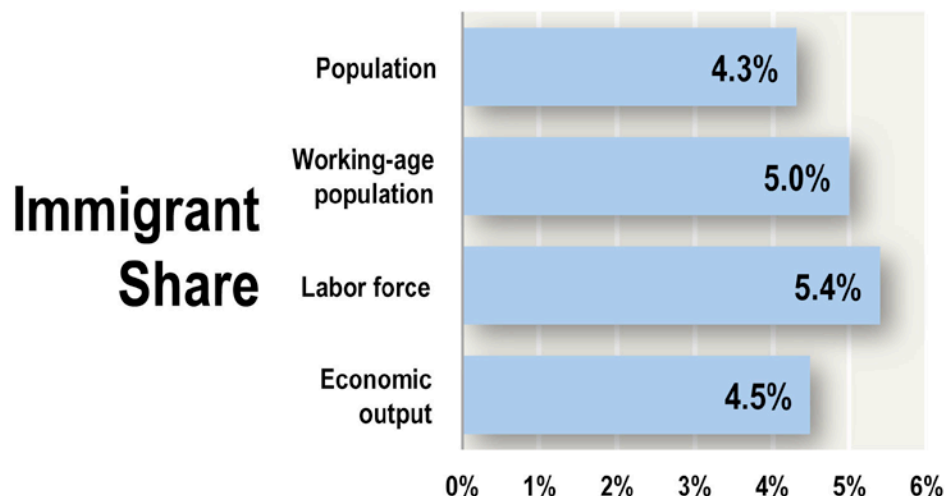
Introduction

It is often said that we are a nation of immigrants. Today the United States is home to over 40.4 million immigrants — roughly speaking, all those born outside the United States — and 11.2 million of those are undocumented, over 5 percent of the labor force. Documented immigrants are those who are granted legal permanent residence; those granted asylum; people admitted as refugees; and people admitted under authorized temporary statuses for longer-term residence and work. Undocumented immigrants are all foreign-born non-citizens living in the United States who do not have legal authorization to do so. The vast majority of undocumented immigrants entered the country without valid documents or arrived with valid visas but stayed past their visa expiration date or violated the terms of their admission.¹ No matter how they arrived, immigrant workers — like other working Iowans — generate income, spend money as consumers, contribute to state and federal revenues as taxpayers, and enrich the culture of their new communities. In this report, we examine the economic side of that contribution.

The number of immigrants overall — and the number of undocumented immigrants — has grown significantly over the last two decades, leading to a perception that immigration is at historically high levels. Yet the percent of the U.S. population that is foreign born — currently about 13 percent — is about the same now as it was throughout the 60-year period from 1860 to 1920, when it fluctuated between 13 percent and 15 percent.² In Iowa, the percentage is much lower: About 4.3 percent of Iowans are foreign born.

It is important to understand the role of immigrants in the Iowa economy. So, here we examine what kinds of jobs they have, how well they are educated, what is

Figure 1. Immigrants are a Significant Share of the Iowa Economy



their income, and what they contribute to the economy. We also address an issue often raised with respect to undocumented immigrants: What do they pay in taxes, and what services can they access? This report provides needed context for the intense, ongoing debate about immigration reform in the United States by examining impacts in Iowa on revenues and the economy. We find that barriers to documentation for immigrants in the current system depress wages and limit the greater contributions these families could be making to the economy and revenue stream.

Immigrants in Iowa

Documented and undocumented immigrants make up 4.3 percent of the population in Iowa, and account for 4.5 percent of the state’s economic output and 5.4 percent of the workforce.³ Despite wide attention to the question of whether immigrants are “documented,” the large number who have citizenship or permanent resident status, or hold visas or are recognized as refugees, enable a more clear look at the share of immigrants in the United States.

Immigrants who live in Iowa work in a wide range of occupations, but are overrepresented in a number of specific occupations. Immigrants account for 56.3 percent of meat cutters; 33.2 percent of packers, fillers and wrappers; 19.4 percent of high school and college instructors; 16.3 percent of software developers; 14 percent of housekeepers; and 11.6 percent of farm workers. At the same time they are under-represented as managers and administrators (3.5 percent); truck, delivery and tractor drivers (3.4 percent); and in uniformed service occupations such as police, fire and security (1.7 percent).

Immigrants contribute to Iowa’s economy and participate in the labor force at rates exceeding their share of the population in part because immigrants are more likely to be of prime working age than their U.S.-born counterparts. This is both because Iowa’s native-born population is rapidly aging, and because most immigrants come to Iowa specifically to work.

Iowa is home to about 130,000 immigrants, over 90 percent of them

Table 1. Immigrants Work in Variety of Occupations in Iowa

	Immigrants as share of occupation group	Percent of all immigrant workers
White-collar Occupation Group		
Architect, engineer, science, math, doctor	9.1%	6.1%
Health, science, aero techs	6.0%	4.0%
Computer software developers	16.3%	2.4%
Art, entertainment, sports, media	5.1%	1.4%
Education, social science, religion	5.1%	8.3%
Subject instructors HS/college	19.4%	4.3%
Executive, admin, managerial	3.0%	7.7%
Sales clerks, cashiers, retail	2.1%	2.7%
Healthcare practitioner	1.9%	1.1%
Sales supervisors	1.7%	1.4%
Service Occupation Group		
Houskeeping, personal service	14.0%	2.3%
Housekeepers/maids/butlers	14.0%	2.3%
Food service	8.2%	9.0%
Cleaning, personal care, child care	5.1%	5.3%
Dental, nursing, health aids	3.5%	2.2%
Blue-Collar Occupation Group		
Precision production	15.6%	9.7%
Butchers and meat cutters	56.3%	7.4%
Machine operators	12.5%	9.4%
Packers, fillers, and wrappers	33.2%	2.6%
Constriction laborers & material handlers	8.7%	7.4%
Fabricators	5.2%	2.8%
Construction trades	5.2%	4.0%
Drivers, transport	2.9%	2.8%
Mechanics and repairers	2.3%	1.6%
Police, fire, security	1.7%	0.5%
Farming Occupation Group		
Farm, fish, hunt, garden	4.2%	3.7%
Farm Worker	11.6%	2.5%

Source: EPI analysis of 2007-2011 American Community Survey

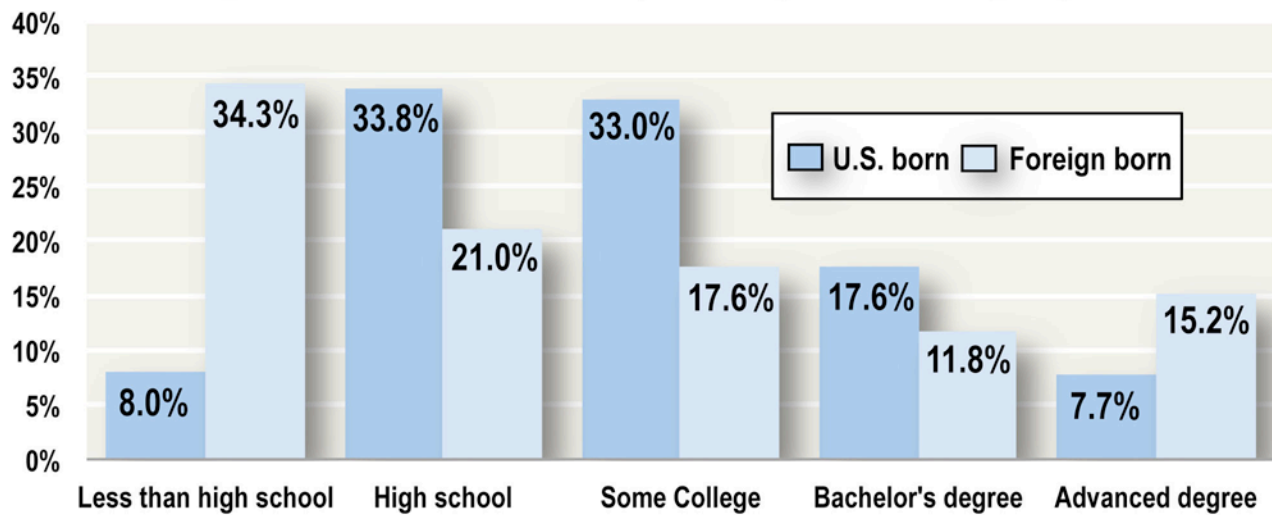
of working age (16 and over). In fact, 83 percent of all immigrants in Iowa are of prime working age (18-64).⁴ This compares to just 60.5 percent of the native born Iowa population in that age group. Thus immigrants have helped to moderate the aging of the population and to increase the share of the state’s population that is earning income and paying the taxes that must support schools and other services needed by our children and by seniors no longer in the labor force.

In addition to the wide array of occupations that immigrants are working in, they also make up 4.4 percent of small business owners in Iowa, and generate more than \$146 million in small business earnings. Immigrants are especially likely to own small town, “Main Street” businesses such as grocery stores, retail shops and restaurants, filling gaps for particular goods and services.⁵

Immigrants bring diverse education backgrounds

Iowa’s immigrants are both better and worse educated than most U.S.-born workers, though U.S.-born Iowans are more likely to have a high school degree or some college education. At one end of the spectrum, 15.2 percent of foreign-born workers in Iowa have advanced degrees — about twice the proportion for native-born Iowans. At the other end of the spectrum, however, immigrants are much more likely than U.S.-born citizens to have less than a high school education. Over 34 percent of immigrants in Iowa lack a high school diploma, more than four times the figure for U.S.-born citizens.

Figure 2. U.S. Born Iowans More Likely to Have High School or College Degree



Most immigrants’ families earn over \$40,000

More than half of all immigrant familiesⁱ in Iowa (58.7 percent) earn between \$20,000 and \$80,000 annually, with median income at \$57,784. Another 26 percent earn between \$80,000 and \$199,000. (Table 2.) Still, immigrant families are somewhat more likely to fall in the lower three income categories than U.S.-born Iowans, and a little less likely to fall in the top three.ⁱⁱ

Table 2. Immigrant Families Have Somewhat Lower Incomes

Family income level	Immigrant families share	U.S. born families
Less than \$20,000	11.5%	9.1%
\$20,000-39,999	20.7%	17.4%
\$40,000-\$59,999	20.6%	19.3%
\$60,000-79,999	17.4%	17.5%
\$80,000-99,999	11.6%	13.3%
\$100,000-199,999	14.6%	19.7%
\$200,000 +	3.6%	3.7%

ⁱ Immigrant families are families with at least one foreign-born member who is 18 years of age or older.

ⁱⁱ Immigrant families may be more likely than U.S.-born families to work more than two jobs.

For individuals vs. total family income, the difference is more noticeable. Median total earned income for an immigrant worker is \$30,956, nearly 26 percent less than the median for U.S.-born workers in Iowa.

The story changes slightly once you take educational attainment into account. Across the board, native-born workers are making more than foreign-born workers who have the same amounts of education, though the differences are smallest for workers with the least and the most education. (Table 3.)

Immigrants with less than a high school degree are making only 6 percent less than native-born workers with the same

education, while at the other end of the spectrum, immigrants with an advanced degree earn only 5 percent less than native-born workers. Yet disparities are markedly significant at other education levels, with a 26 percent gap for the median worker with a high school education, and a 21 percent gap at the median for workers with some college.

Table 3. U.S. Born Iowans Make More by Education

Education level	Median total earned income		Percent difference
	U.S. born	Foreign born	
Less than high school	\$ 27,500	\$ 25,796	6%
High school	\$ 35,000	\$ 25,796	26%
Some college	\$ 39,210	\$ 30,956	21%
Bachelors	\$ 51,593	\$ 45,000	13%
Advanced degree	\$ 65,031	\$ 61,911	5%

Source: EPI analysis of 2009-11 American Community Survey

Little evidence that immigration negatively affects wages of native-born workers

Opponents of immigration reform often argue that immigrants take jobs from native-born workers and drive down wages. However, recent economic research suggests that, on average, previous waves of immigrants have in fact had small but positive impacts on overall wages.

Where the literature divides is how immigration affects the wages of native-born workers of differing skill and educational levels, up or down. There is overall consensus that the effects of immigration on the wages of native-born workers is small regardless of skill level. A prominent study by George Borjas and Lawrence Katz⁶ found that from 1980 to 2000, U.S.-born workers with a college degree saw very little to no change in overall wages while those without a college degree saw small decreases due to low-skilled documented and undocumented Mexican workers entering the United States during this time. In contrast, Gianmarco Ottaviano and Giovanni Peri⁷ (2010) looked at a period with the fastest immigration growth in recent U.S. history (1990-2006). They found that the average wage effect was small but positive across all educational levels for U.S.-born workers — though average wages fell substantially for previous waves of immigrant workers.

An Economic Policy Institute (EPI) analysis⁸ took the same general approach that Ottaviano and Peri used and found that native-born workers experienced similar effects. EPI acknowledged that its study might be masking very different outcomes in certain high-immigrant areas, industries and occupations. EPI estimated that from 1994 to 2007 immigration raised the wages of U.S.-born workers relative to foreign-born workers by \$3.68 per week, and that it lowered the wages of foreign-born workers relative to U.S.-born workers, by \$33.11 per week. Overall, during this period the only workers who felt the negative effects of immigration were those most easily substituted for immigrants — earlier immigrants.

In an effort to evaluate the impact of the Senate immigration bill on U.S.-born workers of differing education levels, the Brookings Institution’s “Hamilton Project”⁹ used the Ottaviano-Peri and Borjas-Katz models to estimate the impact of new immigrants on native-born workers’ wages between 2014 and 2023. Both models concluded that the average impact of immigrants on wages for U.S.-born workers is positive but small — 0.18 percent for Ottaviano-Peri, with roughly no change in wages for college graduates and a small increase among the least educated U.S.-born workers. The Borjas-Katz model predicts a small decrease for U.S.-born workers with a bachelor’s degree or higher and a 1.5 percent decrease for U.S.-born workers with less than a high school diploma. Both models predict gains for high school graduates and people with some college education.

Overall, the small impact of immigration on the wages of native-born workers can be attributed partly to the fact that immigrants, like native-born youth entering the labor force, consume goods and services, which contributes to job creation, and in part because immigrants and native-born workers often have different job specialties within the same occupation or industry as native-born workers. In addition, the jobs they perform are often complementary and expand the economy’s productive capacity. While the labor force grows, more workers mean not necessarily lower wages or higher unemployment — just that the economy is growing.¹⁰ Where wage depression occurs, it is most likely due to exploitation of undocumented workers who are made vulnerable to a variety of employment abuses that can depress their wages.

Undocumented Immigrants in Iowa

Of the 4.3 percent of Iowans who are immigrants, a smaller subset are undocumented individuals who have entered or remained in the country without legal authorization to visit or work in the U.S. It is difficult to pinpoint how many Iowa immigrants are undocumented. Estimates we consider in this paper vary from over 47,000 to about 75,000, as of 2010. Figure 3 reflects the close relationship between larger economic trends and flows of undocumented immigrants.¹¹

These flows to the U.S. changed in conjunction with changes in U.S. border policy and immigration law and trends in the U.S. economy and conditions in Mexico. The number of Mexican immigrants migrating to the United States increased substantially during the 1980s and 1990s, more than

Diversity in Iowa's immigrant population

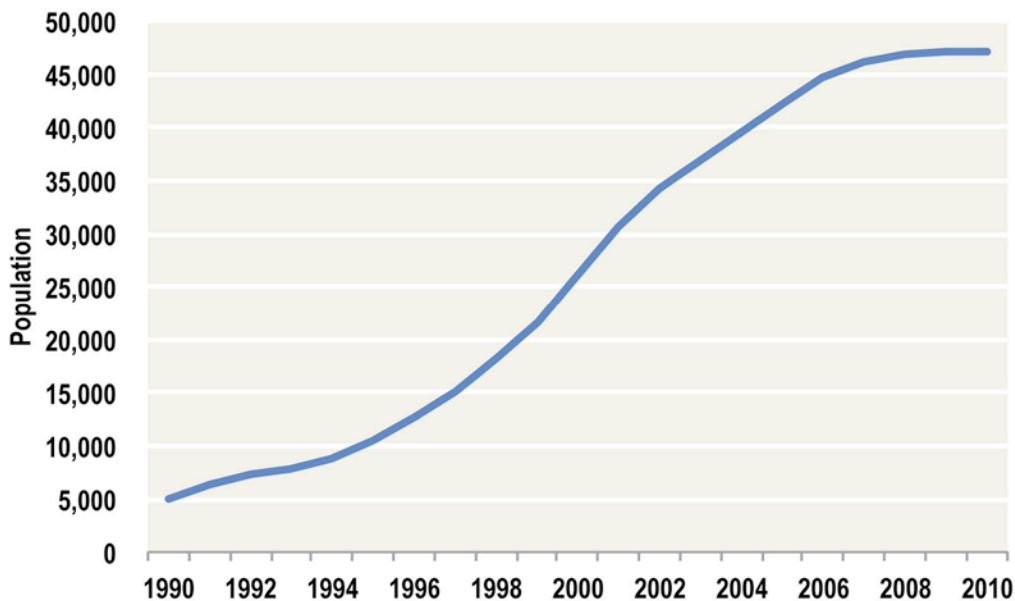
In the United States as a whole, 30 percent of all immigrants were born in Mexico — the predominant group, though still far from the majority. The same holds true for Iowa, with 30.6 percent of the immigrant population coming from Mexico.

Region	Country	Percent of immigrant population
Mexico, Central Amer, Carribean	Mexico	30.6%
India/SW Asia	India	6.8%
Central/Eastern Europe	Germany	5.7%
SE Asia	Vietnam	5.1%
Central/Eastern Europe	Bosnia	4.8%
East Asia	Korea	4.3%
East Asia	China	3.9%
Mexico, Central Amer, Carribean	Guatemala	3.5%
SE Asia	Philippines	2.8%
Canada/Other N. America	Canada	2.6%
SE Asia	Laos	2.0%
Mexico, Central Amer, Carribean	El Salvador	1.9%
Africa	Sudan	1.3%

Source: Warren, Robert and John Robert Warren. "Unauthorized Immigration to the United States: Annual Estimates and Components of Change, by State, 1990 to 2010." <http://onlinelibrary.wiley.com/doi/10.1111/imre.12022/suppinfo>

doubling in each of these decades. The Immigration Reform and Control Act of 1986 had provisions that allowed 2 million undocumented immigrants legal permanent resident status while at the same time increasing border security efforts. The 2 million formerly undocumented immigrants combined with changes in U.S. immigration law, reinforced existing migration patterns and spurred continued legal immigration while increasing illegal immigration.¹²

Figure 3. Growth in Unauthorized Immigrant Population Slows Following Eightfold Increase in Iowa from 1990-2010



Source: Warren, Robert and John Robert Warren. "Unauthorized Immigration to the United States: Annual Estimates and Components of Change, by State, 1990 to 2010."

A correlation can also be made between the passage of NAFTA (North American Free Trade Agreement) in 1994 as well as the devaluation of the peso and a significant increase in illegal immigration in the 1990s. NAFTA was intended to facilitate foreign investment by lifting tariffs and thus creating more jobs in Mexico. But instead, farm subsidies used to subsidize corn were withdrawn, less expensive higher quality goods flooded Mexican markets and drove out Mexican manufacturers, privatization reduced unionization, and the food, seed and feed markets in Mexico had to compete with Canada and the United States. This forced millions of Mexican workers to seek economic opportunities elsewhere. The combination of continued pressures to emigrate and the increasingly restrictive border policies had a profound effect on Mexico-U.S. migration patterns. Immigrants would continue to migrate to the U.S. but would be less likely to return to Mexico in the same numbers as before due to the greater costs and risks of re-entry after the 1986 Reform and Control Act.¹³

Nationally, the undocumented immigrant population peaked at 12.2 million in 2007 as a result of these policies and the increased opportunities from the economic boom of the 1990s. The analysis shown above from Warren and Warrenⁱⁱⁱ likewise shows that Iowa's undocumented population continued to climb from 1990 to 2010, at which point the numbers started leveling off. The Pew Hispanic Center has shown that the number of undocumented immigrants in the United States has

ⁱⁱⁱ Warren and Warren estimate the total foreign-born population separately by state and by year of entry into the country from the 2000 decennial census (for those moving to the U.S. between 1990 and 1999) and from the 2010 American Community Survey (for those moving to the U.S. between 2000 and 2009). Their estimates of the legal resident foreign-born population combine counts of legal permanent residents for each state, by year of entry, and for both new arrivals and those who adjust their status; non-immigrant residents for each state by length of stay, and refugees for each state by year of entry. Their method also requires estimates and assumptions about emigrations rates, Census and ACS undercount rates, removals of unauthorized residents for each state and by year of entry among those living in the U.S. for six months or longer, adjustments from unauthorized to law status by state and year of entry, year of adjustment, and mortality rates.

fallen considerably since its peak to 11.2 million in 2010 as a result of the Great Recession wiping out millions of job opportunities at the same time that border enforcement intensified.

In Iowa, undocumented immigrants make up 2.5 percent of the population (75,000),^{iv} 3.2 percent of the labor force (55,000), and over half of the total immigrant population. By either estimate, tens of thousands of Iowa immigrants are already contributing to the state economy but lack documents and would benefit directly from immigration reforms enabling access to work authorization and a path to citizenship.

It is not possible to measure the economic contributions of undocumented workers separately from immigrants as a whole. For example, available statistics do not indicate occupations or education levels of the subset of immigrant workers who are undocumented. However, it is possible to measure other aspects of undocumented workers' contributions to Iowa's economy: how much undocumented immigrants pay in taxes, and how much access they have to public services financed by their tax payments. We focus in the next two sections on these two questions.

Undocumented Immigrants Boost Iowa Tax Revenues

Undocumented immigrants generally pay the same types of taxes that other residents pay — though undocumented immigrants are in many cases unable to access the public programs or benefits that these taxes help to fund. For example, regardless of their legal status, immigrants pay state and local sales taxes on goods purchased; property taxes either directly if they own a home or indirectly as a portion of their rent; and federal and state excise taxes on purchases of gasoline, oil and tires. Furthermore, the Congressional Budget Office estimates that 50 to 70 percent of undocumented workers have federal and state income taxes withheld from their paychecks, along with payroll taxes for Social Security and Medicare.¹⁴ Below we provide estimates of the size of these tax payments by undocumented immigrants in Iowa, per household and in total.

Income, sales and property taxes

Estimates of state and local taxes paid by undocumented immigrants in Iowa have been provided by the Institute on Taxation and Economic Policy (ITEP), updated to take into account state tax law in effect as of January 2014. The estimates are based on the ITEP state tax model, along with estimates of the size of the undocumented immigrant population in Iowa provided by the Pew Center. These

estimates cover state income taxes, state and local sales and excise taxes (such as gas taxes), and property taxes. As in the 50-state ITEP analysis of taxes paid by

Table 5. Iowa State and Local Taxes Paid by Citizens vs. Undocumented Immigrants

	Citizen	Undocumented Immigrant	Percent of Citizen
Sales and excise taxes	\$ 1,619	\$ 1,457	90%
Property taxes	\$ 131	\$ 131	100%
Personal income taxes	\$ 698	\$ 349	50%
Total	\$ 2,448	\$ 1,937	79%

Source: Iowa Policy Project calculations based on data from the Institute on Taxation and Economic Policy

^{iv} The Pew Hispanic Center calculates its unauthorized immigrant population by estimating the total number of foreign-born people residing in the U.S. as reflected in the Annual Social and Economic Supplement to the Current Population Survey. Pew then subtracts the estimated number of legal residents based on data collected by DHS and other government agencies including naturalized citizens, legal permanent residents, refugees, people who have sought asylum, parolees, and legal temporary residents. These estimates are then disaggregated by state of residence, geographic regions or origin, and five-year periods of entry. These counts are used to develop a population estimate with standard demographic techniques that account for deaths, departures and new arrivals each year, and then the final number is adjusted to account for the unauthorized immigrants who are missed by the survey (under-count estimates).

undocumented immigrants in 2013, the estimates are based on conservative assumptions: (1) 50 percent of undocumented immigrants have income taxes withheld, (2) 10 percent of undocumented immigrant income is remitted to relatives in the home country, slightly reducing sales and excise tax payments, and (3) all undocumented immigrant families are renters.¹⁵

Table 5 compares the estimated taxes paid by an undocumented immigrant household vs. the taxes paid by Iowa citizen households of similar incomes.¹⁶ The average undocumented immigrant family has an income of \$30,100 and pays about \$1,937 annually to state and local governments in Iowa, representing 6.5 percent of their income. There are an estimated 32,750 undocumented immigrant households^v in Iowa.¹⁷ In total, then, undocumented immigrants contribute about \$64 million in taxes to Iowa state and local governments each year. The average citizen household in Iowa with the same \$30,100 annual income pays about \$2,448 annually in state and local taxes. The undocumented immigrant family thus pays about 79 percent of the tax paid by citizen families with the same income. When considering only state (rather than state and local) taxes, the undocumented family pays about 75 percent of the tax paid by citizen families.

Below, we consider the relationship between these tax payments and the public services that undocumented immigrants are able or unable to access. While undocumented households contribute somewhat less in taxes than citizen counterparts, undocumented families receive substantially fewer benefits from tax-supported services.

Fee-supported services

Many services provided by cities are operated as self-supporting enterprises, and are paid for by fees. For these services, undocumented immigrants receive benefits and pay for the service just as anyone else: if they use the service, they pay the fee. These include water supply, sanitary sewer service (generally paid for through a household's water bill), refuse collection, landfills, parking facilities, and a portion of the cost of operating public transit systems. In Iowa, about 17 percent of city and county government spending goes for these fee-supported services.¹⁸

Payroll taxes and unemployment insurance contributions

The authors of this report have supplemented the ITEP figures with our own estimates of additional taxes paid by or on behalf of undocumented immigrants. Unless a worker is paid as an independent contractor, or is paid in cash so that the employer can illegally avoid payroll and other taxes as well as income tax withholding, a worker will have payroll taxes deducted from each paycheck. Standard payroll taxes reflect required employee contributions for Social Security (6.2 percent) and Medicare (1.45 percent), which are matched by employer contributions. In addition, the employer will contribute to the state's Unemployment Insurance fund on behalf of the worker.

We estimate that workers in an average Iowa household, with earnings of \$30,100, will have \$2,303 deducted for payroll taxes during the year: \$1,866 for Social Security and \$436 for Medicare. Using a conservative estimate of 16,375 undocumented immigrant households on payrolls with taxes withheld (half of all undocumented immigrant households), our calculations show that undocumented Iowa workers are contributing \$37.7 million annually to programs that they will be unable to benefit from. Undocumented immigrants, in other words, are helping to

^v The Pew Hispanic Center also calculates a nationwide estimate of the number of people per undocumented immigrant family. The most recent estimate, 2.29, is used to find an estimated number of undocumented households, or tax paying units, by state.

shore up the finances of Social Security and Medicare for U.S. citizens who are eligible for benefits. Moreover, these payroll contributions are matched by employers, doubling the effect.

In addition, employers of undocumented immigrants contribute the standard amount of unemployment insurance premiums to fund the state unemployment program. For 2014, the average wage base in Iowa for unemployment insurance tax purposes is \$26,800, and the average tax rate is 1.6 percent, producing a contribution of \$429 per year for anyone earning \$26,800 or more.¹⁹ Using the same conservative estimate of 16,375 undocumented immigrant households on payrolls tax withholding from undocumented immigrant paychecks adds about \$7 million annually to the state Unemployment Insurance fund, shoring up that fund and helping to keep premiums low, even though undocumented immigrants in Iowa are ineligible to collect unemployment benefits should they lose their job.²⁰

Undocumented immigrants in Iowa: Total taxes paid

Undocumented immigrants in Iowa pay roughly \$101.8 million annually in taxes, in addition to federal income taxes (for which estimates are not available). In addition, another \$44.7 million in payroll taxes and unemployment insurance taxes are paid by employers on behalf of undocumented immigrant workers (see Table 6). The majority of the \$146 million total goes for benefits that undocumented immigrants are not eligible to receive: Medicaid, Social Security and unemployment insurance.

Table 6. Summary of Estimated Taxes Paid by Undocumented Immigrants in Iowa

Taxes paid directly by undocumented immigrants	
State and local sales, excise and income taxes	\$ 64,058,000
Federal payroll taxes: Employee share	\$ 37,705,894
Sub-total	\$ 101,763,894
Taxes paid on behalf of undocumented immigrant workers	
Federal payroll taxes: Employer share	\$ 37,705,894
Unemployment Insurance taxes	\$ 7,021,600
Sub-total	\$ 44,727,494
Total	\$ 146,491,388

Undocumented Immigrants Are Ineligible for Many Programs and Services

Undocumented immigrants are barred from receiving benefits from federal assistance programs (with a few exceptions), as are many immigrants who are in the country legally.²¹ This applies as well to programs administered by the states but funded largely from the federal government. Table 7 lists the major programs that explicitly bar undocumented immigrants from receiving benefits.

Table 7. Federal and State Programs that Bar Undocumented Immigrants from Eligibility

1. Social Security
2. Supplemental Security Income (SSI)
3. Medicare
4. Medicaid (except emergency services)
5. hawk-i (*Healthy and Well Kids in Iowa*, Iowa’s State Children’s Health Insurance Program)
6. Affordable Care Act (ACA): Use of exchanges to purchase insurance, all subsidies
7. Temporary Assistance to Needy Families (TANF)
8. Supplemental Nutrition Assistance Program (SNAP, formerly known as Food Stamps)
9. Low Income Home Energy Assistance Program (LIHEAP)

10. U.S. Housing and Urban Development housing programs: public housing, Section 8, HOME
11. Unemployment Insurance
12. Child Care Assistance (CCA)
13. Earned Income Tax Credit (EITC), federal and state (unless taxpayer has a valid SSN)
14. FEMA grants
15. Workforce Investment Act job training programs
16. Federally funded student financial aid of any kind
17. Iowa College Student Aid Commission programs
18. General Assistance
19. State-county mental health services²²

Clearly, since half or more of undocumented immigrant workers have federal income and payroll taxes deducted from their paychecks, as a group they contribute to financing all of the federally funded assistance programs above from which they can receive no benefit.

Many of these programs are funded partially by the federal government and partially by the states. In fact, the bulk of the state revenue allocated to the Iowa Department of Human Services budget goes to services for which undocumented immigrants are ineligible under federal or state law: Medicaid, the Family Investment Plan (Iowa's version of TANF), State Supplementary Assistance, Child Care Assistance, hawk-i, and mental health services. State spending from in-state sources totals \$1.72 billion for these programs in fiscal year 2014. Add to this the \$64 million in the budget for the Iowa College Student Aid Commission, and you have a little over a quarter of the state budget that goes to services for which undocumented immigrants are ineligible.²³

Our estimates show undocumented immigrants pay three-fourths of the state taxes that a citizen of the same income would pay.²⁴ Thus one might argue that undocumented immigrants in fact pay about their "fair share" of state government costs, since they have the potential to benefit from at most three-fourths of the state budget.

Like all state residents, undocumented immigrants benefit from most services provided by *local* governments in Iowa, including K-12 education, public safety, public parks, and streets and highways. And as our analysis shows above, immigrants are paying the same local property and sales taxes, gas taxes that go for roads, and fees for services, as citizens of similar incomes.

Immigration reform would remove barriers to advancement for currently undocumented immigrants and raise state revenues.

Under the U.S. Senate immigration reform bill, most undocumented immigrants already in the country would be allowed to work in the United States legally (granted Resident Provisional Immigrant, or RPI, status), whether or not they ultimately become permanent residents and then citizens. This in turn would mean they would earn more, and pay more taxes.

Legal status means higher wages for workers

Immigrants with legal status have consistently been shown to have higher earnings than those who are undocumented, with the majority of studies finding that immigrants with legal status earn nearly 10 percent more than undocumented workers. Part of the wage gain comes from a better match of workers to employers and fairer market wages. Undocumented immigrants who are granted legal status become less susceptible to exploitation by employers and have a wider range of job opportunities. The other part of the wage gain can be attributed to improved skills; when immigrants know they have a secure future in the United States and the ability to acquire

higher skill jobs, they are more likely to invest in education and language skills, improving their earnings by improving their productivity.

DREAMers would have more opportunities

Young immigrants who were brought to the United States as children by undocumented immigrant parents — often called DREAMers, because they would benefit from the federal DREAM Act — would see the greatest increase in wages. An estimated 2 million potential DREAM Act beneficiaries are in the United States, including about 6,021 in Iowa.²⁵ Currently, these young immigrants face many obstacles to higher education and job attainment even though many grew up here and call the U.S. home. Legal status would mean more of these young immigrants could go to college, which is good for their earning power, good for employers, and good for future tax revenues. DREAMers who choose not to go to college could compete for the same job opportunities as their native-born peers, and not be limited to the range of job opportunities that undocumented immigrants have.²⁶

Reform would give immigrant business owners access to more options and promote entrepreneurship

In Iowa, immigrants make up 4.3 percent of small business owners in the state. It is difficult to say how many undocumented immigrants are entrepreneurs today but there could be many more if legalization made starting a business easier. Legal status means that undocumented immigrants would have access to a driver's license, bank loans, and a greater ability to navigate government certifications and licenses.

Allowing undocumented immigrants to have a part in this would benefit states like Iowa where population losses have led to economic decay, especially in rural areas. Small towns that have lost residents could benefit from an influx of immigrant entrepreneurs. Immigrant businesses generate tax revenues and local employment in their communities. According to the Department of Sociology Extension and Outreach at Iowa State University, immigrant-established businesses in rural Iowa towns include retail stores, auto repair shops, labor-contracting businesses, specialty farms, translation services, and small-scale manufacturing.

The Iowa State University Extension and Outreach office has a program that promotes immigrant entrepreneurship and integration as part of a community and economic development strategy in small towns. This office also is responsible for the Iowa Community Voices program, which provides education meetings designed to bolster the leadership skills and civic understanding of newly arrived immigrants in Iowa.²⁷

Immigration reform would increase revenues

As discussed earlier, being able to work legally would increase the average wage of undocumented immigrants. ITEP reviewed previous estimates of the size of the wage effect, including one by the Congressional Budget Office, and concluded that a 10 percent increase in average earnings would be a reasonable and conservative assumption about the effects of immigration reform that provides for provisional legal work status.²⁸

Being able to work legally also would increase compliance with income tax laws; the ITEP report assumes that after immigration reform, all workers would pay federal and state income and payroll taxes. Offsetting a little of that revenue gain, undocumented immigrants would become eligible for the federal and Iowa Earned Income Tax Credits (EITCs). At present, undocumented immigrants who do have income taxes withheld cannot claim the EITC even if they file.

The net effect is that federal immigration reform would bring with it an estimated \$16.5 million in additional state and local tax revenue in Iowa, raising the total tax contribution of currently undocumented immigrants from \$64.1 million to \$80.6 million.²⁹

The effect of immigration reform on the spending side of the budget will depend on the specifics of any reform that ultimately becomes law. Under the current Senate bill, those granted RPI status would remain ineligible for Medicaid and for TANF unless and until they became legal permanent residents (which would take at least 10 years), and even then only after they remained permanent residents for another five years. There would thus be no impact on the state share of Medicaid costs, or on the state TANF budget (which is a block grant at any rate), for the first 15 years post-immigration reform.

Conclusion

This report assesses the important contributions Iowa immigrants — who are responsible for 4.5 percent of the state’s economic output — make to the economy as workers, employers, consumers, and taxpayers. We pay particular attention to the contributions to tax revenues made by the subset of Iowa immigrants who are undocumented. Paying an estimated \$64 million in state and local taxes, undocumented workers make resources available for many public services to which they themselves have no access. Research further shows that across the board, immigrants with or without documents may face disadvantages in our state’s labor market, earning less on average compared to native-born Iowans who have similar levels of education.

Our findings suggest that immigration reform enabling work authorization and a path to citizenship for current residents who are undocumented would have significant economic impacts for immigrants and the state as a whole. Legal work status would open up better job opportunities for undocumented immigrants, make it more worthwhile to invest in worker education and training, and reduce all workers’ vulnerability to wage depression and unfair competition. Citizens and authorized workers no longer would compete for jobs with workers whose immigration status makes them more vulnerable to wage theft or other abuses. We estimate higher wages accompanying legal work status attained through immigration reform would boost Iowa state and local tax contributions from currently undocumented immigrants by an estimated \$16.5 million.

Ongoing debates in Iowa on the best way to reform immigration laws in the United States should be grounded in an accurate understanding of Iowa’s immigrant population and its relationship to the state’s economy. Future policy decisions should be based on a solid understanding of the contributions immigrants make to the state’s workforce, economy, tax revenues and communities. It is hoped that this report will go some way toward creating that understanding.

-
- ¹ Jeffrey S. Passel, D'Vera Cohn and Ana Gonzalez-Barrera, "Population Decline of Unauthorized Immigrants Stalls, May Have Reversed," Pew Research Center, September 23, 2013. <http://www.pewhispanic.org/files/2013/09/Unauthorized-Sept-2013-FINAL.pdf>
- ² Migration Policy Institute, at <http://www.migrationpolicy.org/article/frequently-requested-statistics-immigrants-and-immigration-united-states>.
- ³ David Dyssegaard Kallick and James Parrott, "New Americans on Long Island," Fiscal Policy Institute, October 2012. http://www.fiscalpolicy.org/FPI_NewAmericansOnLongIsland_20120119.pdf
- ⁴ Economic Policy Institute analysis of 2011 American Community Survey data.
- ⁵ Paul McDaniel, "Revitalization in the Heartland of America: Welcoming Immigrant Entrepreneurs for Economic Development," Immigration Policy Center, January 2014. <http://www.immigrationpolicy.org/sites/default/files/docs/revitalizationinheartlandofamerica.pdf>
- ⁶ George J. Borjas and Lawrence F. Katz, "The Evolution of the Mexican-Born Workforce in the United States, National Bureau of Economic Research, Working Paper 11281, April 2005. http://www.nber.org/papers/w11281.pdf?new_window=1
- ⁷ Gianmarco I. P. Ottaviano and Giovanni Peri, "Rethinking the Effect of Immigration on Wages," March 2010. <http://economics.ucdavis.edu/people/gperi/site/papers/rethinking-the-effect-of-immigration-on-wages>
- ⁸ Heidi Shierholz, "Immigration and Wages: Methodological advancements confirm modest gains for native workers," Economic Policy Institute, February 4, 2010. <http://www.epi.org/publication/bp255/>
- ⁹ Brookings paper <http://www.brookings.edu/blogs/jobs/posts/2013/08/02-immigration-wages-greenstone-looney>
- ¹⁰ "Value Added: Immigrants Create Jobs and Businesses, Boost Wages of Native-Born Workers," Immigration Policy Center, January 2012. <http://www.immigrationpolicy.org/just-facts/value-added-immigrants-create-jobs-and-businesses-boost-wages-native-born-workers>
- ¹¹ Warren, Robert and John Robert Warren. "Unauthorized Immigration to the United States: Annual Estimates and Components of Change, by State, 1990 to 2010." <http://onlinelibrary.wiley.com/doi/10.1111/imre.12022/supinfo>
- ¹² Jeffrey Passel, D'Vera Cohn and Ana Gonzalez-Barrera, "Net Migration from Mexico Falls to Zero—and Perhaps Less," Pew Hispanic Center, April 23, 2012. http://www.pewhispanic.org/files/2012/04/Mexican-migrants-report_final.pdf
- ¹³ Patricia Fernández-Kelly and Douglas S. Massey, "Borders for Whom? The Role of NAFTA in Mexico-U.S. Migration," *Annals of the American Academy of Political and Social Science*, Vol. 610, NAFTA and Beyond: Alternative Perspectives in the Study of Global Trade and Development, March 2007.
- ¹⁴ Many undocumented workers received a Social Security number when they had legal status (a student or work visa perhaps), and have kept the number after their temporary immigrant status ceased.
- ¹⁵ The ITEP model assumes that half of the property taxes on rented homes or apartments are passed on to renters in the form of higher rent. This is consistent with research showing landlords and tenants split the cost of property taxes on average.
- ¹⁶ The data in the table comes from the Institute on Taxation and Economic Policy and is an update, reflecting 2014 tax law, of two of their earlier reports: *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, 4th Edition, January 2013; and *Undocumented Immigrants' State and Local Tax Contributions*, July, 2013.
- ¹⁷ Institute on Taxation and Economic Policy, *Undocumented Immigrants' State and Local Tax Contributions*, July 2013.
- ¹⁸ U.S. Census Bureau, State and Local Government Finances, 2011. <http://www.census.gov/govs/local/> This is the sum of spending on water, sewerage, refuse collection, landfills, parking facilities, and transit, by local governments in Iowa, divided by all local government general expenditures (plus the utility expenditure categories listed above) except education (which is a school district rather than a city or county function). It does not include the fees collected for other services, such as building permits, recreation passes, park entrance fees and the like, nor does it include municipal electric and gas utilities, which are not provided in the majority of cities.
- ¹⁹ We use the average rate rather than the median or the new-employer rate (1.0 percent) or the rate for new construction workers (8.0 percent) for a couple of reasons. The median will be lower than the average, but national data shows that undocumented immigrant workers are disproportionately represented in the construction industry, suggesting that the typical contribution rate is, if anything, higher for undocumented immigrant workers than for others. We know of no reason to assume that undocumented immigrant workers tend to work for new employers at a higher rate than others. The state's average tax rate and wage base can be found at <http://www.iowaworkforce.org/news/XcNewsPlus.asp?cmd=view&articleid=993> and <http://www.iowaworkforce.org/ui/uiemployers.htm>.
- ²⁰ While the average annual earnings of undocumented immigrants is \$30,100, some will earn less than the wage base of \$26,800 and hence pay less than \$429 in unemployment insurance premiums. We do not have a way of estimating how many earn less than the base wage, and by how much. On the other hand, our estimate assumes conservatively that just half of undocumented immigrants will be contributing. On balance, the \$7 million is still likely to be a conservative estimate.
- ²¹ For details, see U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, ASPE Issue Brief "Overview of Immigrants' Eligibility for SNAP, TANF, Medicaid, and CHIP," March 2012; National Immigration Law Center, "Overview of Immigrant Eligibility for Federal Programs," October 2011, <http://www.nilc.org/overview-immeligfedprograms.html>, "Immigrant Eligibility for Selected Federal Programs," table updated September 2012, from the *Guide to Immigrant Eligibility for Federal Programs*, available at

http://www.caplaw.org/conferencesandtrainings/webinardocuments/2012/CAPLAW_ImmigrantEligibilityChart_Webinar_September2012.pdf and “Immigrants and the Affordable Care Act (ACA)”, January, 2014. <http://www.nilc.org/immigrantshcr.html> .

²²A valid Social Security number is required to receive mental health services other than in a medical emergency (correspondence from Jennifer Harbison, Iowa Department of Human Services, May 27, 2014). In addition, at least some counties require proof of citizenship or legal residency, which would disqualify immigrants who had a valid Social Security number but were not legal residents because they had overstayed their visa.

²³ This calculation was made by adding \$318 in funding for Medicaid from state sources outside the general fund to the general fund budget amounts for the six programs cited (\$1.4 billion), and then dividing by the total General Fund for FY14 (\$6.49 billion) plus the \$318 million in non-general fund Medicaid. See the “Gray Book” or 2013 Session Fiscal Report, Iowa Legislative Service Agency (LSA), and Memo from Jess Benson, LSA, “Monthly Medicaid Forecast – March 2014,” April 4, 2014;

<https://www.legis.iowa.gov/docs/publications/MF/25374.pdf> . This is a conservative estimate; while a small amount of emergency Medicaid and emergency mental health services, for which undocumented immigrants are eligible, is included in the Medicaid total, we do not include any of the \$96 million in the DHS budget for administration and field operations, some portion of which is surely attributable to operation of the six programs.

²⁴ Table 4 shows that undocumented immigrants pay about 79 percent of the total state and local taxes paid by legal residents. The percentage is slightly lower for state taxes alone (that is, excluding property taxes and the local share of sales taxes).

²⁵ “Who and Where the DREAMers Are Revised Estimates: A Demographic Profile of Immigrants Who Might Benefit from the Obama Administration’s Deferred Action Initiative,” Immigration Policy Center, October 2012.

<http://www.immigrationpolicy.org/just-facts/who-and-where-dreamers-are-revised-estimates>

²⁶ David Dyssegaard Kallick and James Parrott, “Three Ways Immigration Reform Would Make the Economy More Productive”, Fiscal Policy Institute, June 4, 2013.

<http://fiscalpolicy.org/wp-content/uploads/2013/06/3-ways-reform-would-improve-productivity.pdf>

²⁷Paul McDaniel, “Revitalization in the Heartland of America,” Immigration Policy Center, January 2014.

²⁸ Institute on Taxation and Economic Policy. *Undocumented Immigrants’ State and Local Tax Contributions*. July 2013.

<http://www.itep.org/immigration/>

²⁹ Revised estimate based on Iowa Earned Income Tax Credit of 15 percent for 2014; communication from Kelly Davis of the Institute on Taxation and Economic Policy, May 9, 2014.