

Potential Tax Revenues from Unauthorized Workers in Houston's Economy

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Abstract

This report examines the potential tax revenues that would be collected from unauthorized workers, also referred to as undocumented workers, employed in the Houston area. The report attempts to estimate the tax revenues that would accrue if those workers had legal status, received the prevailing wage for their occupation, and they and their employers paid Social Security, Medicare, unemployment insurance and federal income taxes on those wages. Only unauthorized workers in the Houston-Sugar Land-Baytown Metropolitan Statistical Area¹ are factored into this analysis, but the assumptions and methodology are applicable to other metro areas and to larger geographies as well. This analysis does not attempt to assess the costs associated with providing social services to the undocumented workers' and their families, nor does it attempt to assess the undocumented workers' contributions to the region's economy. That analysis is beyond the scope of this report.

Executive Summary

There are at least 132,000 undocumented workers in the Houston MSA, with the highest concentrations in the construction, business and professional services, and leisure and hospitality industries.

The MSA's undocumented workers earned an estimated \$7.0 billion in salary and wages in '08, the base year for this analysis.

If all undocumented workers in the region and their employers paid Social Security, Medicare, unemployment insurance, and federal income taxes, the additional revenues would exceed \$1.4 billion.

- Social Security would receive an additional \$851.7 million.
- Medicare would receive an additional \$205.8 million.
- The U.S. Department of the Treasury would receive an additional \$333.5 million.
- The Texas Workforce Commission would receive an additional \$33.0 million.

¹ The Houston-Sugar Land-Baytown Metropolitan Statistical Area (Houston MSA) consists of Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto and Waller Counties.

The \$1.4 billion in revenues is the base scenario. It assumes that 100 percent of all undocumented workers in the region acquire legal status and received the prevailing wage for their occupation. In reality, some undocumented workers will remain outside the system.

- If only 25 percent acquire legal status, this would generate an additional \$356.1 million in revenues,
- If only 50 percent acquire legal status, this would generate an additional \$712.2 million,
- If only 75 percent acquire legal status, it would generate an additional \$1.068 billion in revenues.

Even with less than 100 percent participation, the potential revenues are substantial.

Count of Undocumented Workers in Houston

It is difficult to determine the number of undocumented workers in Houston. The U.S. Census Bureau and the Bureau of Labor Statistics do not ask a resident's legal status when conducting surveys. Unauthorized residents, fearing discovery, generally do not respond to government surveys. And those who do respond often misrepresent their status to protect themselves and their families.

The Pew Hispanic Center has conducted extensive research on the demographic characteristics of the nation's undocumented population, looking at its size, age, ethnicity, gender, country of origin, education, income, poverty status, labor force participation, occupation and industry.² Pew's national data can be used to estimate the demographic and workforce characteristics of Houston's undocumented population.

Data from the Pew Center indicate that in March '08 unauthorized workers held 14.1 percent of all construction jobs, 10.0 percent of the leisure and hospitality jobs, 6.5 percent of all manufacturing jobs, 6.5 percent of all professional and business services jobs, 4.3 percent of all wholesale and retail jobs, and 7.6 percent of all service jobs in the United States (The Pew Hispanic Center does not publish estimates for the number of undocumented workers in the Government sector). Those percentages can be used to estimate the number of undocumented workers in the region, the industries in which they work, their compensation, and their potential contributions to Social Security, Medicare, unemployment insurance, and the U.S. Treasury.

Applying national data from the Pew Hispanic Center to the local economy, the author estimates there were at least 132,000 undocumented workers in the Houston economy in '08. Because Pew uses March '08 data in its analysis, all Houston data is also from March '08. The number of undocumented working in each industry can be seen in the table which follows.

² Passell, Jeffrey S.; Cohn D'Veira; *A Portrait of Unauthorized Immigrants in the United States*, Pew Hispanic Center, April 14, 2009; <http://www.pewhispanic.org/2009/04/14/a-portrait-of-unauthorized-immigrants-in-the-united-states/>

Count of Undocumented Workers in Houston

Industry	Total MSA Employment	% Unauthorized in U.S. Workforce	Estimated Unauthorized in Houston
Construction	207,000	14.1%	29,187
Professional and Business Services	381,400	6.5%	24,791
Leisure and Hospitality	232,200	10.0%	23,220
Wholesale and Retail Trade	402,000	4.3%	17,286
Manufacturing	238,300	6.5%	15,490
Other Services	90,900	7.6%	6,908
Educational and Health Services	281,000	1.6%	4,496
Transportation and Utilities	126,100	3.5%	4,414
Financial Activities	144,200	2.1%	3,028
Mining and Logging	83,200	2.4%	1,997
Information	36,700	2.0%	734
Agriculture, Forestry & fishing	3,441	13.4%	461
Households	8,900	60.0%	5,340
Totals	2,235,341	NA	132,011

Sources: Employment - Texas Workforce Commission, *Current Employment Statistics*, March '08, except agriculture, forestry and fishing from TWC's *Quarterly Census of Employment and Wages*, First Quarter, 2008; Percent Unauthorized in the U.S. Workforce, *A Portrait of Unauthorized Immigrants in the United States*, Pew Hispanic Center, April 14, 2009, except households data based on author's estimates; Estimate Unauthorized in the Houston MSA - Greater Houston Partnership calculations based on Texas Workforce Commission and Pew Hispanic Center data

Current estimates are significantly lower than the author's previous estimates.³ There are several reasons for the lower estimates. For one, between '05 and '08 the Pew Hispanic Center significantly revised their estimate of the number undocumented workers in each industry, and it was these estimates upon which the author based his initial analysis. Second, the industries in Houston that had the greatest concentrations of undocumented workers in the mid-'00s—construction and manufacturing—suffered some of greatest job losses during the recession and those sectors remain slow to recover. Third, Pew reports the number of undocumented workers from Mexico, the home country of the majority of undocumented workers in Houston, has declined significantly in recent years. Fourth, tighter enforcement of immigration laws by U.S. Immigrations and Customs Enforcement has slowed the flow of new entrants into the United States. And fifth, author's initial estimate of the number undocumented working in private households was probably too high.

Compensation of Undocumented Workers in the Houston MSA

Conventional wisdom holds that undocumented workers, because they lack legal status, are

³ In *Contributions of Unauthorized Workers to Houston's Regional Economy*, published in July 2006, the author estimated the region's population of undocumented workers at approximately 250,000. The full report can be accessed at <http://www.houston.org/pdf/research/whitepapers/unauthorizedworkers.pdf>

forced to, or more willing to, accept lower wages than U.S.-born workers who are naturalized citizens. This analysis assumes that if the undocumented received some form of legal status, allowing them to legally work in the United States, the foreign worker could potentially receive the prevailing wage for their occupation. The Texas Workforce Commission publishes average wage data for various industries in Houston. This data can be used to estimate total compensation paid to undocumented workers in the Houston region.

Undocumented Worker Compensation in Houston

Industry	Estimated Unauthorized in Houston	Average Weekly Wage	Average Annual Salary	Compensation to Houston Undocumented
Construction	29,187	\$1,096	\$56,992	\$1,663,425,504
Professional and Business Services	24,791	\$1,254	\$65,208	\$1,616,571,528
Leisure and Hospitality	23,220	\$363	\$18,876	\$438,300,720
Wholesale and Retail Trade	17,286	\$837	\$43,524	\$752,355,864
Manufacturing	15,490	\$1,514	\$78,728	\$1,219,457,356
Other Services	6,908	\$610	\$31,720	\$219,134,448
Educational and Health Services	4,496	\$796	\$41,392	\$186,098,432
Transportation and Utilities	4,414	\$986	\$51,272	\$226,288,972
Financial Activities	3,028	\$1,612	\$83,824	\$253,835,837
Mining and Logging	1,997	\$3,486	\$181,272	\$361,963,930
Information	734	\$1,301	\$67,652	\$49,656,568
Agriculture, Forestry & fishing	461	\$590	\$30,680	\$14,146,364
Households	5,340	\$344	\$17,888	\$95,521,920
Totals	132,011	NA	NA	\$7,001,235,522

Sources: Estimates of Unauthorized in the Houston MSA - Greater Houston Partnership calculations based on Texas Workforce Commission and Pew Hispanic Center data; Average Weekly Wage - Texas Workforce Commission, Quarterly Census of Employment and Wages, March 2008; Average Annual Salary - Greater Houston Partnership calculations

Potential Revenues from Undocumented Workers in Houston

Once compensation paid to undocumented workers has been estimated, it's possible to calculate the potential tax revenues that would be generated if these workers had legal status and they and their employers were required to pay Social Security, Medicare, unemployment and federal income taxes. To reach that estimate, Social Security taxes are calculated at 12.4 percent on the first \$106,800 in wages, 6.2 percent employers share and 6.2 percent employees share; Medicare taxes at 2.9 percent on all wages, 1.45 percent employers share and 1.45 percent employees share; unemployment insurance at 2.7 percent assessed against the first \$9,000 in wages, and federal income taxes, charged at 4.7 percent against total income, which is based on a study by the Center for Budget and Policy Priorities found a family of four in the middle income spectrum will pay only 4.7 percent of its annual income in federal taxes in '11.

If all undocumented workers in the region and their employers paid Social Security, Medicare, unemployment insurance, and federal income taxes, the additional revenues would exceed \$1.4 billion.

- Social Security would receive an additional \$851.7 million.
- Medicare would receive an additional \$205.8 million.
- The U.S. Department of the Treasury would receive an additional \$333.5 million.
- The Texas Workforce Commission would receive an additional \$33.0 million.

Those estimates can be found in the table which follows.

**Potential Tax Revenues
From Undocumented Workers in Houston (in \$Millions)**

Industry	Compensation to Houston Undocumented	Social Security	Medicare	Federal Income Tax	Unemployment Insurance
Construction	\$1,663.425	\$206.264	\$48.239	\$78.180	\$7.092
Prof & Business Services	\$1,616.571	\$200.454	\$46.880	\$75.978	\$6.024
Leisure and Hospitality	\$438.300	\$54.349	\$12.710	\$20.600	\$5.642
Wholesale and Retail Trade	\$752.355	\$93.292	\$21.818	\$35.360	\$4.200
Manufacturing	\$1,219.457	\$151.212	\$35.364	\$57.314	\$3.763
Other Services	\$219.134	\$27.172	\$6.354	\$10.299	\$1.678
Educational and Health Services	\$186.098	\$23.076	\$5.396	\$8.746	\$1.092
Transportation and Utilities	\$226.288	\$28.059	\$6,562	\$10.635	\$1.072
Financial Activities	\$253.835	\$31.475	\$7.361	\$11.930	\$0.735
Mining and Logging	\$361.963	\$26.444	10.496	\$17.012	\$0.485
Information	\$49.656	\$3.078	\$1.440	\$2.333	\$0.178
Agriculture, Forestry & fishing	\$14.146	\$0.877	\$0.410	\$0.664	\$0.112
Households	\$95.521	\$5.922	\$2.770	\$4.489	\$1.297
Totals	\$7,001.235	\$851.680	\$205.805	\$333.547	\$33.376

Note: Some columns may not total even due to rounding. Source: Greater Houston Partnership calculations based on Texas Workforce Commission and Pew Hispanic Center data

The \$1.4 billion in revenues is the base scenario. It assumes that 100 percent of all undocumented workers in the region acquire legal status. In reality, some undocumented workers will remain outside the system.

- If only 25 percent acquire legal status, this would generate an additional \$356.1 million in revenues,
- If only 50 percent acquire legal status, this would generate an additional \$712.2 million,
- If only 75 percent acquire legal status, it would generate an additional \$1.068 billion in revenues.

Even with less than 100 percent participation, the potential revenues that would result from providing undocumented workers with legal status to work in the United States are substantial.

Summary

In summation, Houston has at least 132,000 undocumented workers, their combined wages exceed \$7.0 billion annually, and if federal and state taxing jurisdictions were able to collect taxes and fees on their full income, an additional \$1.4 billion in total revenues could be realized.

Sources:

Current Employment Statistics (CES), Texas Workforce Commission, March '08.

Quarterly Census of Employment and Wages (QCEW), Texas Workforce Commission, First Quarter, 2008

Passell, Jeffrey S.; Cohn D'Veira; *A Portrait of Unauthorized Immigrants in the United States*, Pew Hispanic Center, April 14, 2009

Marr, Chuck and Brunet, Gillian; *Federal Income Taxes on Middle-Income Families at Historically Low Levels*, Center for Budget and Policy Priorities, April 15, 2011

A copy of this analysis can be found at

<http://www.houston.org/pdf/research/whitepapers/taxrevenuesundocumentedworkers.pdf>