ECONOMIC ANALYSIS

The Tax Aspects of Immigration Reform

By Martin A. Sullivan — martysullivan@comcast.net

On April 16, 2013, a group of four Democratic and four Republican senators introduced S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act. This sweeping overhaul of the U.S. immigration system was approved by the Senate Judiciary Committee on May 21, 2013, on a 13-5 vote. On June 27, 2013, the full Senate approved an amended version on a 68-32 vote.

Readers who focus their attention on tax issues have a good excuse if they missed all this. The final stages of the Senate’s push for passage of S. 744 coincided with the furor stirred by the May 14, 2013, Treasury Inspector General for Tax Administration’s report revealing that the IRS Tax-Exempt and Government Entities Division office used “inappropriate criteria” for delaying applications of some organizations applying for section 501(c)(3) and 501(c)(4) status.

This wide-ranging reform bill is known mostly for its heightened border security, increased requirements for employers to verify the legal status of employees, and the complete revision of pathways to legal status for both currently undocumented and aspiring future immigrants, particularly those who are highly skilled. With all its impact on hot-button issues, sometimes it is forgotten that the bill is major deficit reduction legislation. According to the estimates jointly produced by the Congressional Budget Office and the Joint Committee on Taxation, the bill would generate $158 billion of deficit reduction over 10 years.

Former Utah Gov. Jon Huntsman has suggested that the next Congress combine elements of immigration reform with business tax reform in a single package (“What Can Washington Get Done in Obama’s Last Two Years?” Politico, Oct. 27, 2014). Congress is desperate for sources of funds to pay for rate reduction. Immigration reform legislation could help. But successful passage of any immigration reform in the 114th Congress is still a long shot — especially if President Obama sparks the indignation of conservative lawmakers and follows through on his promise to take executive action that would remove the threat of deportation for millions of undocumented immigrants.

Most of the money moving around in the CBO-JCT immigration reform estimate is tax related. The net $158 billion of deficit reduction is a combination of a $456 billion revenue increase offset by $298 billion of increased discretionary spending (Figure 1). Refunds of earned income credits, child credits, and premium assistance credits — officially scored as discretionary spending — accounted for nearly four-fifths of the estimated spending increase.

The revenue and expenditure estimates for the Judiciary Committee version of the bill are described in a 63-page document published by the CBO. The CBO updated its estimates in a July letter to Senate Judiciary Chair Patrick J. Leahy, D-Vt. In their estimates the CBO and JCT did not follow their usual practice of assuming that GDP and employment remain constant. These budget projections of S. 744 incorporate the direct effects on the bill on the U.S. population, employment, and taxable compensation, and as a result the bill is estimated to increase GDP by 3.3 percent in 2023.

Lots More People

S. 744 is not so much a tax increase as it is an effective increase in the number of taxpayers. According to the official estimates, the legislation will make the U.S. population larger by 9.6 million in 2023. The number of residents with legal status will increase by 16.1 million by 2023.

Three broad shifts in population drive these estimates (Figure 2). The first and the largest is the increase in legal immigration into the United States. New visas for future immigration include those for three categories of new permanent residents: family-based immigration (1.2 million in 2023), employment-based immigration (2.4 million), and merit-based immigration (7.1 million). Track 2 merit-based immigrants, mostly from the current backlog of existing visa applications, would account for 6.5 million of this total. In addition, there are new visas provided to temporary workers’
programs (1.6 million). These changes result in a total net increase in new residents with legal status of 12.1 million in 2023.

The second major shift is the change of 6.5 million currently unauthorized residents to new legal status that would allow them to work in the United States. (“Unauthorized resident” is official language for an individual commonly referred to as an illegal alien or undocumented worker.) Under the bill, an estimated 5.1 million unauthorized residents in 2023 would be registered provisional immigrants (RPIs) in 2023. With RPI status, individuals would be lawfully present in the United States, except they would not be eligible for premium assistance credits or subject to penalties for lack of insurance under the Affordable Care Act. Unless they entered the country before they were 16 years old (so-called Dreamers), RPIs would be required to pay a $1,000 penalty and an additional processing fee. Another estimated 1.4 million former unauthorized agricultural workers would get “blue cards,” which would allow them to work legally. Both RPIs and agricultural blue card workers could eventually obtain legal permanent resident status.

The third major shift is a reduction in the net annual inflow of future unauthorized residents. This is because of a combination of increased border security and tougher employment verification requirements. The bill approved by the Judiciary Committee was estimated to reduce future unauthorized residents by 1.6 million in 2023. The approval of Senate Amendment 1183 significantly increased border security. As a result, the CBO and JCT increased the estimated reduction of future unauthorized immigrants in 2023 to 2.4 million.

Taxpaying Illegals
The estimated increase in tax revenue from S. 744 is in part because of taxes paid on the income of additional workers entering the United States and in part from taxes paid on increased employment income reported by currently unauthorized workers. The official estimates do not give a breakdown of revenue from these two sources, but it is clear that the vast majority of new revenues come from new entrants into the United States.

The first reason for this is that the influx of new legal immigrants is larger than the net increase in current and future unauthorized immigrants paying taxes. As noted, the new legal immigrant population will increase by 12 million in 2023. These individuals are assumed to be no different than the general population in their compliance with the tax laws. The revenue gain from the 6.5 million former unauthorized immigrants obtaining legal status depends on how many of them already pay tax. Similarly, the revenue loss from the 2.4 million...
fewer future unauthorized immigrants entering the country depends on how many of them would have paid tax if they had entered the country.

In a 2013 study, the Office of the Chief Actuary of the Social Security Administration reported that there were an estimated 10.8 million unauthorized immigrants in the United States in 2010. Of these, 7 million were employed. A total of 3.1 million unauthorized workers paid $13 billion in Social Security tax. These taxpayers fell into three categories. First, there are 0.6 million unauthorized immigrants who had temporary work authorized in the past and have overstayed the term of their visas. Second, there are 0.7 million unauthorized workers who used fraudulent birth certificates to obtain a Social Security number. Third, there are 1.8 million workers using a Social Security number that did not match their name (in which case their earnings are credited to someone else’s record or, if there is no matching name, to the Social Security Administration’s earning suspense file). The estimated remaining 3.9 million not paying taxes were employed in the underground economy (Figure 3).

Based on these estimates, we assume that 44 percent (that is, 3.1 divided by 7) of unauthorized workers pay Social Security tax. Given this figure, and assuming that the ratio of employment to population is the same for all immigrants, 3.64 million of 6.5 million (56 percent) new immigrants will be paying additional payroll taxes under the bill in 2023. At the same time, there will be a loss of revenue from the 1.06 million of 2.4 million (44 percent) future unauthorized residents who would have entered the country in 2023. Combining these figures, the net increase in the population paying Social Security tax that had been or would have been unauthorized immigrants is 2.54 million in 2023 (Figure 4).

**Decomposition of Official Estimates**

The official CBO-JCT estimate reports figures for off-budget revenues, on-budget revenues, unemployment insurance taxes, fees classified as revenues, the refundable portion of premium assistance credits, and other refundable tax credits. Off-budget revenues are government receipts from Social Security taxes. Unemployment insurance taxes and fees classified as revenues are part of total on-budget revenues. The refundable portion of tax credits is classified discretionary spending for budget purposes. Other refundable credits are refundable portions of earned income tax credits and child tax credits. These amounts for fiscal 2013 are shown in italics in Table 1.

From these amounts, it is possible to make reasonable estimates of other components of changing revenue. The combined employer-employee Social Security tax rate is 12.4 percent. The combined employer-employee Medicare tax rate is 2.9 percent. Medicare tax revenues, included in total on-budget.
revenues, are assumed to be 23.4 percent (that is, 2.9/12.4) of Social Security tax revenue. That is $8.75 billion.

The CBO-JCT explanation of the estimates points out that businesses, both corporate and passthrough, would pay lower taxes because of
Table 1. Decomposition of Official Revenue Estimate of S. 744 for 2023 (dollars in billions)

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total outlays</td>
<td>$55.7</td>
</tr>
<tr>
<td>Total off-budget revenues (Social Security tax)</td>
<td>$37.4</td>
</tr>
<tr>
<td>Total on-budget revenues</td>
<td>$49.4</td>
</tr>
<tr>
<td>Medicare payroll tax</td>
<td>$8.75</td>
</tr>
<tr>
<td>Unemployment insurance tax</td>
<td>$1.2</td>
</tr>
<tr>
<td>Tax reduction for extra deductions of payroll tax</td>
<td>-$7.1</td>
</tr>
<tr>
<td>Individual income tax</td>
<td>$46.56</td>
</tr>
<tr>
<td>Refundable earned income and child credits</td>
<td>-$23.1</td>
</tr>
<tr>
<td>Refundable premium assistance credits</td>
<td>-$18.52</td>
</tr>
<tr>
<td>Revenues less refundable credits</td>
<td>$45.18</td>
</tr>
</tbody>
</table>

Source: CBO-JCT estimates and calculations described in text.
Note: Premium assistance credits in 2023 are assumed to be 80.2 percent of the total estimated health insurance subsidies of $23.1 billion in that year. The text of the CBO-JCT report states that $66 billion (80.2 percent) out of a total of $82.3 billion of health insurance subsidies over 10 years were refunds of premium assistance credits.

extra deductions taken for the employer portion of payroll taxes. Assuming an average tax rate of 30 percent, the increase in the employer portion of Social Security taxes (one-half of $37.4 billion) and Medicare taxes (one-half of $8.75 billion) and in unemployment insurance tax ($1.2 billion) would reduce business taxes by $7.1 billion. The change in income tax paid by new immigrants and newly authorized residents is calculated as a residual. From total on-budget revenues of $49.4 billion, we can subtract Medicare tax ($8.75 billion) and unemployment tax and fees classified as revenues ($1.2 billion) and add a reduction in business tax ($7.1 billion) to arrive at an estimate of $34.6 billion of increased income tax paid by an enlarged population of authorized immigrants as a result of the new bill.

Distribution by Immigration Category

In this article, two different methods are used to estimate this distribution of revenue changes attributable to new legal residents and revenue changes attributable to the change in status of unauthorized residents. The first method starts with the distribution of income and population of immigrants, both newly arrived and currently resident, who will begin paying tax as a result of S. 744. Different categories of tax liability (from Table 1) are then distributed mainly on the basis of either income or population. The details are described at the end of this article in Appendix 1 and Table A1.

The second method builds on an official estimate of a proposal that changed the number of unauthorized immigrants in the United States but did not change legal immigration. This estimate is then scaled up to be proportionate to the change in the number of unauthorized immigrants in the United States under S. 744. Then, revenue changes attributable to new residents are calculated as residual — the difference between the total estimated revenue gains from S. 744 and the revenue changes attributable to changes in the status of unauthorized residents. The details of this approach are described in Appendix 2 and Table A3.

Table 2 summarizes the estimates derived using the two different methods. Using the first method, it is estimated that 86 percent of revenue raised by S. 744 — excluding the effect of refundable credits — is attributable to new immigrants entering the United States. Using the second method, 94 percent of revenue raised, excluding credit refunds, is from new legal immigrants. The main difference between the two sets of estimates is that the first has unauthorized immigrants paying more income tax (before refundable credits) than the second. The estimated income tax paid by unauthorized residents in the first set of estimates is probably too large because it assumes unauthorized residents have the same effective tax rate (before refundable tax credits) as new legal immigrants, even though legal immigrants have higher education levels and incomes.

Including the effect of refundable credits in the revenue estimate skews the distribution even further toward new immigrants. Under the first method, they account for 94 percent of the revenue net of refundable credits. Under the second method, they account for more than 100 percent because the increase in currently unauthorized residents filing returns actually reduces revenue.

Fees and Penalties

In their efforts to shrug off arguments that granting legal status to unauthorized immigrants is amnesty, proponents of immigration reform stress that attaining legal status would be accompanied by the payment of penalties and back taxes.

The CBO-JCT estimate of the fiscal impact of S. 744 includes $8.9 billion of new fees and penalties that would be collected over the first decade. For official purposes, these receipts are counted as reductions in discretionary spending rather than as revenue. The vast majority of these fees would be collected from currently unauthorized residents obtaining RPI status. Registrants for RPI status would be required to pay a $1,000 penalty when they apply. In total, this raises $4.9 billion over 10 years. Also, RPI applicants would be charged a processing fee of about $750. In the aggregate, these processing fees would raise $3 billion over 10 years. Only $506 million (6 percent of the $8.9 billion total) of fees and penalties classified as negative discretionary spending were not charged to current unauthorized
residents. Though most of these fees are likely to be collected in the early part of the decade, for purposes of illustrating the medium-term impact of fees relative to taxes, the estimates in this article for 2023 assume that those fees are collected evenly over 10 years.

The imposition of $1,750 of penalties and fees per person on a family of low-income unauthorized workers is a large financial burden. It could cause some not to seek legal status even though they meet RPI requirements. And raising those fees would further reduce the incentive to use the pathways to legal immigration under the bill. But as significant as they may be to the affected individuals, the fees and penalties in S. 744 are a small part of the overall fiscal effect of the bill on the federal government.

Compared with new taxes generated by S. 744 — over $45 billion net of tax credits in 2023 — aggregate new fees and penalties under the bill are relatively small, at less than $1 billion. And even though these fees are mostly paid by current unauthorized residents gaining legal status, they do not significantly change the estimates of the distribution of the government receipts under the bill. For example, as shown in Table 2, new immigrants entering the country legally account for 94.2 percent of net new revenues. Adding fees under the first method and penalties to the calculations reduces their share of the burden to 92.5 percent.

**Back Taxes**

Under S. 744, an unauthorized resident may not file an application for RPI status unless the applicant has satisfied all federal tax liabilities assessed by the IRS. The critical factor here is that the RPI applicant is not required to pay all taxes legally owed, just delinquent taxes that are on the IRS radar. These assessed liabilities are amounts shown as due on a tax return and amounts assessed under a deficiency notice.

**But as significant as the penalties and fees may be to the affected individuals, they are a small part of the overall fiscal effect of the bill on the federal government.**

During the Judiciary Committee markup of S. 744, Sen. Mike Lee, R-Utah, offered an amendment that would have required RPI applicants to demonstrate that they had paid all taxes legally owed, rather than just those assessed by the IRS. The amendment was not agreed to by voice vote. Senate Finance Committee ranking minority member Orrin G. Hatch, R-Utah, and Sen. Marco Rubio, R-Fla., sought and failed to have a similar amendment added to the bill on the Senate floor. (Prior coverage: *Tax Notes*, June 17, 2013, p. 1374.)

It would be very difficult for the IRS to collect back taxes from millions of current unauthorized immigrants who worked in the underground economy or who worked in the aboveground economy with phony or stolen Social Security numbers. The CBO-JCT explanation of its estimates states that only unauthorized residents who filed

---

**Table 2. Summary of Estimated Distribution of Revenues and Fees Across Immigration Categories in 2023**

(dollars in billions)

<table>
<thead>
<tr>
<th>Population (millions) (See Figure 4.)</th>
<th>New Immigrants Entering Legally</th>
<th>Net New Taxpayers From Current and Future Unauthorized Immigrants</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>12</td>
<td>2.6</td>
<td>14.6</td>
</tr>
</tbody>
</table>

**Panel A. First Method**

<table>
<thead>
<tr>
<th>Tax change — excluding refundable credits</th>
<th>$75.1</th>
<th>$11.70</th>
<th>$86.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>86.5%</td>
<td>13.5%</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tax change — with refundable credits</th>
<th>$42.56</th>
<th>$2.62</th>
<th>$45.18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>94.2%</td>
<td>5.8%</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change — tax, refundable credits, and fees</th>
<th>$42.61</th>
<th>$3.47</th>
<th>$46.08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>92.5%</td>
<td>7.5%</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Panel B. Second Method**

<table>
<thead>
<tr>
<th>Tax change — excluding refundable credits</th>
<th>$80.93</th>
<th>$5.87</th>
<th>$86.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>93.2%</td>
<td>6.8%</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tax change — with refundable credits</th>
<th>$48.39</th>
<th>-3.22</th>
<th>$45.18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>107.1%</td>
<td>-7.1%</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change — tax, refundable credits, and fees</th>
<th>$48.44</th>
<th>-2.37</th>
<th>$46.08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>105.1%</td>
<td>-5.1%</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source:* Author’s calculations from tables A1 and A3.
tax returns using individual tax identification numbers (ITINs) could be matched to make assessments. ITINs are issued by the IRS to taxpayers who have filing obligations but are not eligible to receive Social Security numbers.

If their employers withheld income tax and they subsequently filed returns, not only would many of these RPI applicants have no further income tax obligation, they might also be due refunds. Given low audit rates generally, the chances of any unauthorized immigrant with tax due being assessed are low. And as the CBO-JCT explanation points out, “those with unpaid assessments — and particularly those with large unpaid assessments — would be less likely to apply [for RPI status].” Given all this, it seems congressional scorekeepers expect the IRS to collect next to nothing from unauthorized residents as a result of the back taxes provision of the bill. Accordingly, the estimates in this article make no adjustment for additional back taxes paid by RPI applicants.

Conclusion
Against all odds, Obama, who would love to include immigration reform as part of his legacy, and Republican leaders in Congress, who want their party to be competitive in the 2016 presidential election and to show they can get things done, are likely to make a serious attempt at putting together a bipartisan, bicameral deal on immigration in 2015. The estimates presented in this article are based on numerous assumptions about which there is considerable uncertainty, so they can hardly be taken as gospel. But the central finding, concerning the large difference in the revenue effects between legal and unauthorized immigration, is difficult to dispute given the differences in average income levels and the fact that many currently unauthorized immigrants already pay tax. As Congress struggles to fix our broken immigration system, it is likely to consider many variations of S. 744 and its components. Those proposals that allow a large influx of new legal immigrants — particularly immigrants with high skills — will significantly increase tax revenue. Providing new legal status for current unauthorized immigrants will not.

Appendix 1 — First Distribution Method
Under this method, components of the official estimates shown in Table 1 are distributed across categories of net new taxpayers under the bill by income or by population. The results are presented in Table A1.

Social Security and Medicare taxes. Average income and education levels are expected to be significantly higher for new immigrants than they are for unauthorized immigrants. Figure 5 shows the estimated highest level of educational attainment for the two groups. Forty-six percent of unauthorized immigrants did not finish high school, compared with 10 percent for legal immigrants entering the United States as a result of S. 744. At the other end of the spectrum, only 17 percent of unauthorized immigrants have bachelor’s degrees compared with 49 percent for new legal immigrants. Combining these data with data from the Department of Labor about average earnings by level of educational attainment (www.bls.gov/emp/ep_table_001.htm), we can calculate the weighted average earnings for unauthorized immigrants and for incoming legal residents under the bill. These estimates show that average earnings of unauthorized immigrants are 72 percent of the average earnings of new legal immigrants under S. 744.

Based on data presented in Figure 4, new immigrants (12 million) account for 82.3 percent of the change in the payroll-tax-paying population, while unauthorized immigrants (3.64 million minus 1.06 million) account for the remaining 17.7 percent. Given the estimated difference in earnings between the two groups, the distribution of earnings is even more skewed — 86.6 percent for new immigrants and 13.4 percent for unauthorized immigrants. These figures are shown in Table A1.

We assume here that the distribution of Social Security and Medicare taxes is proportional to income. Accordingly, as shown in Table A1, we estimate that new immigrants are responsible for increases of $32.38 billion of Social Security tax and $7.57 billion of Medicare tax. Net changes in the unauthorized population increase Social Security taxes by $5.02 billion and Medicare tax by $1.17 billion.

Unemployment insurance tax revenue. We assume unemployment insurance tax liabilities track closely to changes in other payroll taxes, but instead of being proportional to income they are proportional to population.

Business taxes. Reductions in business taxes attributable to each group’s change in payroll taxes are distributed almost entirely proportionally to income. An exception is the relatively minute amount of extra deductions attributable to unemployment insurance tax. This results in estimated reductions in business taxes of $6.15 billion because of new immigrants and of $0.95 billion because of the net increase in unauthorized workers.

Income taxes. Changes in income taxes paid by shifting immigrant populations require some extra explanation. We assume that current and future unauthorized taxpayers who have Social Security numbers and have payroll tax withheld also have income tax withheld. But because they do not wish their false, fraudulently obtained, or expired Social Security numbers to be subject to extra scrutiny,
they do not file income tax returns. Further, we assume under this method that in the aggregate, the filing of tax returns on their part would not result in a significant change in tax liability (that is, refunds) even without taking into account the earned income and child credits that drive total liability below zero.

Given these assumptions, all 12 million new immigrants would be part of the income-tax-paying public. There would be 3.64 million currently unauthorized residents who would join these ranks (that is, they would have tax withheld and file returns). There would also be 1.06 million fewer future unauthorized immigrants who would have had their income tax withheld if they were not discouraged or prevented from entering the country by S. 744. Assuming legal and unauthorized immigrants on average have the same effective tax rates (where those rates are calculated excluding refundable credits), our calculations assume that the distribution of income taxes is the same as for Social Security and Medicare taxes — that is, it is proportional to income.

Refundable portions of earned income and child credits. We assume refunded earned income and child credits generally are proportional to the populations of new immigrants eligible to receive them. An exception to the proportionality assumption arises because some unauthorized immigrants are already receiving refunds of child tax credits.

A 2011 TIGTA report indicated that unauthorized immigrants without Social Security numbers were receiving child tax credit refunds totaling as much as $4.2 billion in 2010. Administrative actions taken by Treasury in 2012 made it more difficult for unauthorized immigrants to obtain an ITIN, which can be used instead of a Social Security number to claim child credits. (Prior coverage: Tax Notes, July 2, 2012, p. 42.) These actions significantly reduced the number of ITIN applications, as well as the percentage of applications accepted by the IRS. Earned income tax credits can only be claimed by taxpayers with Social Security numbers.

The CBO-JCT estimates of S. 744 assume a current-law baseline. Under current law, features of the rules that expand the refundability of the child credit will expire in 2017, and so any revenue estimates for 2023 assume a downsized child credit incorporated into the baseline. In a 2012 JCT estimate of a proposal that would eliminate the ability of taxpayers to use ITINs to claim child credits, a similarly downsized child credit is part of the baseline. For 2022, the last year of that estimate, the revenue gain from the proposal is $0.7 billion. For
the estimates in this article, we assume unauthorized immigrants would receive $0.7 billion of child credits in 2023 in the absence of S. 744.

Some of this $0.7 billion would have been received by current unauthorized immigrants who now join the ranks of regular taxpayers under the bill. Some of this $0.7 billion would have been received by future unauthorized immigrants who are no longer entering the country. Both of these phenomena reduce the estimated increase in use of credits under S. 744. Adjustments to this account only slightly alter the distribution of refundable credits (shown in Table A1) from what they would have been if they were allocated strictly by population of immigrants newly eligible for refundable credits.

All new legal immigrants entering the United States as a result of S. 744 will become eligible for earned income and child credits. And except for those currently unauthorized immigrants now receiving child credits, all current unauthorized immigrants who gain legal status under S. 744 will also begin receiving earned income and child credits. Lastly, except for a small amount of reduced child credits, the change in future unauthorized immigrants does not affect the amount of refundable credits. Putting all this together, new immigrants are estimated to receive $15.4 billion (66.8 percent) of the increase in earned income and child credits under the bill, and currently unauthorized immigrants receive the remaining $7.7 billion (33.2 percent).

**Premium assistance credits.** Under S. 744, currently unauthorized immigrants who attain RPI or blue card status are specifically barred from receiving premium assistance credits. New immigrants entering the country legally would be eligible for the credits. Most of the $18.52 billion of estimated premium assistance refunds in the CBO-JCT estimates for 2023 is attributable to 12 million new legal residents. However, over time some individuals who initially gain RPI status and are ineligible for premium assistance credits enter into some of the programs for new legal immigrants and become eligible for the credits. It is not clear from the official estimates how many individuals would make this...
shift in status by 2023. The estimate indicates that 6.8 million individuals would initially register for RPI status and that in 2023, the number in RPI status would decline to 5.1 million—a drop of 1.7 million. Some of this drop is attributable to the inability of some registrants to satisfy requirements for the bill and also to other causes, such as death and emigration. In this article, it is assumed that 1 million of the 1.7 million reduction of individuals in RPI status is attributable to individuals who gain status similar to that of new legal immigrants and are eligible for premium credits. (The official estimates classify individuals by their initial post-S. 744 status so they are not part of the reported 12 million with that status in 2023.) The net result of all this is that it is assumed that approximately 92 percent (12 million/13 million) of all new premium assistance credits are received by new immigrants and that the remaining 8 percent (1 million/13 million) are received by residents unauthorized before S. 744 would come into effect.

Appendix 2 — Second Distribution Method

The enhanced enforcement included in the Senate-passed version of S. 744 is estimated to reduce the net number of unauthorized immigrants in the United States by 800,000 in 2023. It is also estimated to increase Social Security taxes by $0.6 billion. The enhanced enforcement is estimated to increase Social Security taxes by $0.6 billion.
billion in 2023 and other tax revenues by $0.2 billion in 2023. Estimated using the same procedure for decomposing aggregate estimates used to produce Table 1, the first numerical column of Table A2 shows the estimated breakdown of revenue from that $800,000 reduction in unauthorized residents. The next column of Table A2 scales those figures up to provide estimates of the revenue effect of the net 2.58 million change in unauthorized immigrants paying taxes under S. 744. The scaling factor is 7.34, derived by taking the ratio of (1) the sum of new taxpayers under the Senate-passed version of S. 744 to (2) the reduction in taxpayers in the Senate-passed bill.

For the estimates of the refundable credits, the same procedure is used as in the first method: earned income and child credits are proportional to changes in the taxpaying population (with some minor adjustments for child credits currently received by unauthorized immigrants), and most refunds of premium assistance credits accrue to new immigrants (with some adjustment for unauthorized immigrants who initially obtain RPI status but then later obtain visas under the Merit-II program). The estimates are summarized in Table 2 and shown in detail in Table A3.

Will the Tax Reform Impasse Break After the Midterm Elections?

By Lindsey McPherson — lmcpers@tax.org

Tax reform has long been a central part of the GOP’s economic agenda, so if the party wins control of both chambers of Congress in the midterm elections — and the result political polls suggest that is likely — Republicans will have a tough decision to make about whether to attempt to pass reform legislation under a Democratic administration.

“I do think if Republicans take the Senate it does ratchet up the pressure” to do something on tax reform, Anne Urban of Urban Swirski & Associates said. That pressure is compounded when Republicans consider that their window of opportunity to control the congressional landscape may be limited to two years, as the Senate could flip again in 2016, said Urban, a former Democratic congressional tax aide.

The November 4 midterm elections may not produce an immediate answer about which party will control the Senate, because runoffs are possible in Louisiana and Georgia, and other close races could result in requests for a recount. However, pundits still largely predict that the GOP will ultimately win enough Senate seats to take the majority.

Republicans are operating under two schools of thought as they consider whether to pursue tax reform if they win full control of Congress, according to Kenneth J. Kies of the Federal Policy Group. The first is that Republicans shouldn’t waste their time taking tough votes on tax reform that could end up hurting them during the next election cycle just for President Obama to veto their plan, Kies said, adding, “Unless Obama has a brain transplant, it’s unlikely he would sign what [Republicans] consider tax reform.” Similar thinking contributed to the lack of action this year on the tax reform discussion draft released by House Ways and Means Committee Chair Dave Camp, R-Mich.

‘Unless Obama has a brain transplant, it’s unlikely he would sign what [Republicans] consider tax reform,’ Kies said.

The second thought is that Republicans need to show they can legislate and take hard votes. Although a GOP tax reform plan wouldn’t become law under Obama, it would almost certainly be the starting point for tax reform in the future, Kies said.