

## **State and local taxes paid in Colorado by undocumented immigrants**



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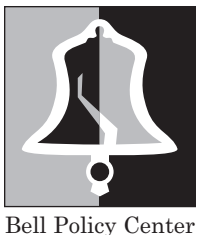
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# State and local taxes paid in Colorado by undocumented immigrants

## Key Findings for Colorado

- According to the Pew Hispanic Center, there are 225,000 to 275,000 undocumented immigrants living in Colorado.
- Undocumented immigrant households paid between **\$159 million and \$194 million in total taxes in 2005**, through state and local sales taxes, income tax and property tax. This total is adjusted for the estimated 70 percent of adults who send an average of \$2,000 per year in remittances to their home countries. It also assumes that half of undocumented immigrants are working “on the books” and paying income tax.
- We estimate the average undocumented household working on the books in Colorado paid **\$1,861 in state and local sales, income and property taxes in 2005**. We estimate the average undocumented household working off the books, and therefore not paying income taxes, paid **\$1,370 in sales and property taxes in 2005**.
- Colorado employers paid an estimated **\$12 million to \$15 million in unemployment insurance taxes** for undocumented immigrant employees. This estimate assumes that 50 percent are working on the books.
- We estimate the cost to the state for providing federally mandated services — K-12 education, emergency medical care and incarceration — to undocumented immigrants is **nearly \$225 million**. This is consistent with estimates made by the nonpartisan Colorado Legislative Council staff, which put the figure at **\$217 million**.
- **All together, undocumented immigrant tax payments are equal to 70 to 86 percent of the state and local governments’ costs for providing federally mandated services.**



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# State and local taxes paid in Colorado by undocumented immigrants

## □ Introduction

Immigration is one of the most intensely debated political issues in Colorado. It was a major focus of the 2006 General Assembly. The Colorado Supreme Court's decision on June 12 to strike from the ballot a proposed constitutional amendment that would deny non-emergency, non-federally mandated services to undocumented immigrants living in Colorado raised the visibility of the issue even higher.

Gov. Owens will convene a special legislative session July 6 to address, among other things, the question of state government services provided to undocumented immigrants. Depending on what the Legislature does, it is possible that Colorado voters will be faced with a ballot question addressing services to undocumented immigrants.

While there is much talk about Colorado taxpayers subsidizing health care and K-12 education for undocumented immigrants, there is little talk about the amount of taxes paid by undocumented immigrants.

Regardless of status, undocumented immigrants are an inseparable part of the economy. Like other Coloradans, they live in houses and consume goods. And, like all Colorado consumers, they cannot avoid paying sales tax on goods purchased or property tax as part of rental payments to landlords.

Further, at least half of undocumented immigrants in Colorado work on the books at jobs where state and federal income taxes are regularly withheld from their paychecks. Colorado employers pay unemployment insurance taxes for all their "on the books" workers, even though undocumented workers are not eligible to receive unemployment benefits.

This issue brief uses Colorado tax data provided by the Institute on Taxation and Economic Policy (ITEP) in Washington, D.C., to estimate the amount of taxes paid by undocumented immigrants living in Colorado in 2005. This brief estimates the amount of:

- State and local sales taxes and local property taxes paid by undocumented immigrants living in Colorado in 2005.

### About the model used to estimate tax payments

We estimated state and local income, sales and property taxes paid by undocumented families in collaboration with the Institute on Taxation and Economic Policy (ITEP). In 1996, ITEP developed its Microsimulation Tax Model. It is similar to models used by the congressional Joint Committee on Taxation, the U.S. Treasury Department and the Congressional Budget Office, with the added capability of state-by-state estimating.

ITEP is a nonprofit, nonpartisan research and education organization based in Washington, D.C., that works on government taxation and spending policy issues. ITEP provides policymakers, advocates and the public with accurate and timely information on state and federal tax systems and how they affect taxpayers at different income levels.

ITEP's model of state tax systems can calculate the amount of federal and state personal income taxes by income group. It is unique in its ability to produce analysis at both the federal and state level and in its ability to analyze the taxes paid by groups of taxpayers according to income and family size.

The model also considers specific state and federal taxes such as capital gains, and includes or excludes of various items such as federal and state tax adjustments, exemptions, standard and itemized deductions, and credits such as the earned income and child care credits.

The data used in the tax model is derived from a stratified random sample of about 365,000 federal tax returns, with additional data from the U.S. Census Bureau and state revenue departments. ITEP notes the tax returns were chosen to be statistically valid at the state level for income, deductions, exemptions and federal taxes paid.

For a full description of the tax model, the database and the supplemental data, visit the ITEP web site: <http://www.ctj.org/itep/index.htm>



# State and local taxes paid in Colorado by undocumented immigrants

## □ Methods used to estimate tax payments

- State income tax paid by undocumented immigrants working on the books.
- State unemployment insurance tax paid by employers on behalf of undocumented immigrants working on the books.

All sales tax estimates have been adjusted downward to account for the effect of remittance payments on consumer spending.

To calculate total tax payments, we used estimates of the number of undocumented immigrants living in Colorado, their average household size and average annual income. We also estimated the amount of remittances sent back to home countries, and reduced the amount of sales tax payments accordingly.

Based on this analysis, we estimate the aggregate state and local tax payments paid by undocumented immigrants in 2005 was \$159 million to \$194 million.

### Methods used to estimate state and local tax payments

Outside of the the U.S. Department of Homeland Security, few government agencies collect information on undocumented immigrants, so calculating the precise amount of taxes paid by undocumented immigrants is not possible. We can make reasonable estimates using the ITEP tax model and these four indicators:

1. Number of undocumented immigrants living in Colorado
2. Average number of people living in undocumented immigrant households
3. Average annual income of undocumented immigrant households
4. State and local tax payments paid by all Coloradans

For sales and property taxes, an immigrant's legal status makes little difference. Because sales taxes are charged on nearly every purchase, and because property taxes are usually collected through rent, we can estimate these payments

### About the methods used to estimate immigrant population

We used the latest population estimates of undocumented immigrants in the United States provided by the Pew Hispanic Center, a nonpartisan research organization supported by the Pew Charitable Trusts. Based in Washington, D.C. Pew is widely regarded as producing the most authoritative analyses of the undocumented population living in the United States, including estimates of the undocumented population and demographic studies on immigrants.

Pew uses a residual technique to estimate the undocumented population in each state. Estimates are derived by subtracting the U.S. Census's Current Population Survey data from the U.S. Department of Homeland Security data on permanent and legal temporary migrants. The initial number of unauthorized migrants is then adjusted upward to account for omissions. All calculations are done by country or region of birth, age, sex, period of arrival and state or region of residence.

The residual method has been used for several decades to measure unauthorized migration to the United States. Variants of the residual method have been used by the Census Bureau, the Panel on Immigration Studies, the Bi-National (U.S.-Mexico) Study, the Commission on Immigration Reform and the former Immigration and Naturalization Service.

based on known tax payments of Colorado households at comparable income levels.

Legal status does play a large role in state and federal income taxes. Some undocumented workers work for cash in the underground economy, while others obtain phony documents to get hired for on the books jobs.

The Center for Immigration Studies estimates that half of undocumented immigrants are working on the books.<sup>1</sup> The Social Security Administration Actuary puts this figure at 75 percent, but we use the more conservative 50 percent for this brief.



# State and local taxes paid in Colorado by undocumented immigrants

## □ Average size and income of undocumented households

### 1. Number of undocumented immigrants living in Colorado

We use the estimate of 225,000 to 275,000 undocumented immigrants living in Colorado developed by Jeffrey Passel, a demographer and senior researcher at the Pew Hispanic Center.<sup>2</sup>

The Pew Hispanic Center produces the most widely used estimates of the undocumented population. Pew researchers use the “residual technique” to calculate the number of undocumented immigrants living in each state, based on data from the 2000 U.S. Census and the Census Bureau’s March 2005 Current Population Survey (CPS).

The only other state-specific estimates of the undocumented population were made by the former U.S. Immigration and Naturalization Service. INS estimated approximately 144,000 undocumented immigrants lived in Colorado in 2000.<sup>3</sup> This outdated estimate doesn’t account for the immigrants who entered Colorado since 2000, while Pew revised its estimates using 2005 data.

### 2. Average size of undocumented immigrant households

The size of the undocumented immigrant households is used to estimate consumption patterns and the amount of sales taxes these households pay. We use the Pew Hispanic Center’s nationwide estimate of 2.29 people per undocumented immigrant family. Pew does not provide state-by-state estimates.

Pew uses “family” to describe married or unmarried couples with or without children, other adults with children, and solo adults. An undocumented family has either a head or a spouse who is unauthorized.<sup>4</sup> We instead use the term “household” to reflect the many combinations of undocumented immigrants who share living quarters in Colorado communities.

The estimate of 250,000 to 275,000 undocumented immigrants living in Colorado with an average of 2.29 members per household, results in an estimated 98,253 to 120,087 undocumented households living in the state.<sup>5</sup>

Table 1. The number of undocumented households in Colorado, 2005 <sup>6</sup>

| Pew lower population estimate       |         |
|-------------------------------------|---------|
| Undocumented population in Colorado | 225,000 |
| Average household size nationwide   | 2.29    |
| Undocumented households in Colorado | 98,253  |
| Pew upper population estimate       |         |
| Undocumented population in Colorado | 275,000 |
| Average household size nationwide   | 2.29    |
| Undocumented households in Colorado | 120,087 |

Source: Pew Hispanic Center, “The Size and Characteristics of the Unauthorized Migrant Population in the U.S.,” 2005 and 2006 reports.<sup>6</sup>

### 3. Average annual income for undocumented households

The most thorough information regarding undocumented immigrant wages also comes from the Pew Hispanic Center. Using analysis of 2004 and 2005 CPS data, Pew estimates that undocumented households nationally have an average annual income of \$27,400. There are no Colorado-specific estimates, so we use the \$27,400 figure in our calculations.<sup>7</sup>

Three recent studies <sup>8, 9, 10</sup> indicate that most undocumented immigrants work in low-wage jobs such as farming, cleaning and food preparation. The type of industry an undocumented immigrant works in, the immigrant’s gender and their length of time in the United States make substantial differences in earnings.

Undocumented immigrant men are more likely to be employed in industries that pay higher wages, such as construction. Undocumented immigrant women, in contrast, are much more likely to work in low-wage service sectors such as cleaning, food preparation or child care. In comparing median weekly wages, type of industry and gender, Pew found 38 percent of male Mexican migrants earn less than \$300 per week compared to 74 percent of females.<sup>11</sup> Pew notes that most undocumented immigrants are young single men who come to the United States to find work in the relatively high-wage construction sector.<sup>12</sup>





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## State and local taxes paid in Colorado by undocumented immigrants

### ☐ Remittances

#### Remittances: effects on sales taxes

Studies show most immigrant workers send part of their income back home. However, remittance patterns and amounts vary greatly by education, income, family characteristics, labor force participation and ties to the country of origin.<sup>13</sup>

A 2000 study by the Inter-American Dialogue and the Tomás Rivera Policy Institute found that approximately 60 percent of immigrants send remittances back to their country of origin, with amounts ranging from \$120 to \$500 per month.<sup>14</sup>

In 2005, Bear Stearns reported that immigrants send home remittances averaging \$1,400 to \$1,500 per year.<sup>15</sup>

In a separate survey, the Inter-American Development Bank examined remittance patterns of Latin Americans living in Colorado and found that 69 percent regularly send remittances. The average annual amount sent per adult in 2004 was \$2,008, or about \$167 per month.<sup>16</sup>

Because the Inter-American Development Bank estimates are Colorado-specific, we used them to calculate the amount of remittances sent by undocumented immigrant households. We rounded up to 70 percent the number of households sending remittances and used the estimate of \$2,000 per year as the amount. This allows us to make a reasonable estimate of the effect remittances have on the discretionary income of undocumented immigrants.

Sending money back home is clearly important to immigrant workers. Using the Inter-American survey, we estimate the amount of remittances sent home per undocumented immigrant household in Colorado is \$2,800 per year.

We arrived at this total based on estimates that 70 percent of adult undocumented immigrants send an average of \$2,000 per year home in remittances. Therefore, the average annual remittance sent home by all adults equals \$1,400 (\$2,000 x 0.70).

National demographics show an average of two adults per undocumented immigrant household.

Table 2. Estimates of the effects of remittances by undocumented immigrant household

|   |          |
|---|----------|
| Estimated number of adults per undocumented household       | 2        |
| Average annual remittance sent home                         | \$2,000  |
| Percent of adults sending remittances                       | 70%      |
| Average annual remittance per adult                         | \$1,400  |
| Average annual remittance per undocumented household        | \$2,800  |
| Average annual household income                             | \$27,400 |
| Remittances as a percent of average annual household income | 10%      |

Source: Bell Policy Center calculations based on Institute on Taxation and Economic Policy, Colorado 2005 tax data, provided to Bell, May 2006.

Based on that, we determined total remittances per household to be \$2,800 (\$1,400 x 2).

That turns out to be about 10 percent of the average annual household income of undocumented immigrant families. Table 2 shows these calculations.

#### Sales taxes and remittances

The data surrounding remittances paid by undocumented immigrants are speculative and based on a series of assumptions.

Given that wages earned by undocumented immigrants are low, it is reasonable to assume that sending remittances home results in lower spending on consumer goods, which in turn reduces the sales taxes undocumented immigrants pay. Because average remittances equal 10 percent of undocumented immigrant household annual income, we reduced the amount of estimated sales taxes paid by 10 percent.

We decided to include estimates of remittances, even though their reliability can be questioned, because remittances can affect sales tax payments and are an important part of the debate over undocumented immigration. While these are the best estimates we have, they should be interpreted with caution.



# State and local taxes paid in Colorado by undocumented immigrants

## Results: Taxes paid by undocumented immigrant households

### State and local taxes paid by undocumented immigrant households

We estimated the amount of state and local income, sales and property taxes paid by undocumented households using a Microsimulation Tax Model<sup>17</sup> developed by the Institute on Taxation and Economic Policy (ITEP).

Table 3 shows the percentage of income that undocumented immigrant households spent on sales, property and income taxes in 2005.

According to the ITEP calculations, at the \$27,400-a-year income level, undocumented immigrants in Colorado paid 5.13 percent of their income in sales taxes, 0.38 percent of their income in property taxes (through rent) and 1.70 percent of their income on income taxes.

Table 3. Percent of income used for state and local taxes by undocumented immigrant households in Colorado, 2005

|   |          |
|---|----------|
| Undocumented annual income - national average | \$27,400 |
| Sales tax                                     | 5.13 %   |
| Property tax (rental tax only)                | 0.38 %   |
| Income tax                                    | 1.79 %   |

Sources: Institute on Taxation and Economic Policy and Pew Hispanic Center<sup>18</sup>

Table 4 shows the estimated amount of state and local taxes each undocumented immigrant household paid in 2005. This estimate is based on an annual income of \$27,400, with half of the households paying income taxes and all households sending home an overall average of \$2,800 per year in remittances.

Based on these assumptions, an undocumented immigrant household with an income of \$27,400 would have paid \$1,265 in sales taxes, \$105 in property tax through rent and \$491 in income tax. The combined sales and property tax paid by this household totals \$1,370. Based on data from the Center for Immigration Studies, we estimate that half of these households pay state and federal

income taxes. For those households paying income taxes, the total taxes paid is an estimated \$1,861.

Table 4. Estimated state and local taxes paid by undocumented immigrant households in Colorado, 2005

|  |          |
|--|----------|
| Undocumented annual income - national average            | \$27,400 |
| Sales tax paid   | \$1,265  |
| Property tax paid  | \$105    |
| Total sales and property tax paid, all households        | \$1,370  |
| Income tax paid  | \$491    |
| Total sales, income and property tax, half of households | \$1,861  |

Sources: ITEP and Bell Policy Center<sup>19</sup>

### Aggregate state and local taxes paid by undocumented immigrant households

We calculate the aggregate income, sales and property (based on rent) taxes paid by undocumented immigrant households totaled \$159 million to \$194 million in 2005.

Table 5 shows the lower and upper bound amounts based on estimates of the number of undocumented immigrants living in Colorado. These totals include the effects of remittances on sales tax revenue and the assumption that half of the households pay income taxes.

Table 5. Estimated aggregate annual tax payments of undocumented immigrant households in Colorado, 2005

|  |                                       |
|--|---------------------------------------|
| Estimated number of undocumented immigrants in Colorado                      | 225,000 to 275,000                    |
| Estimated number of undocumented households in Colorado                      | 98,253 to 120,087                     |
| <b>Total of estimated state and local taxes paid by undocumented workers</b> | <b>\$159 million to \$194 million</b> |
| State income taxes   | \$24 million to \$30 million          |
| Property taxes   | \$10 million to \$13 million          |
| Sales taxes  | \$125 million to \$151 million        |

Sources: ITEP and Bell Policy Center<sup>20</sup>



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## State and local taxes paid in Colorado by undocumented immigrants

### ❑ Results: State unemployment insurance taxes

#### State unemployment insurance taxes

Employers pay unemployment insurance taxes on the first \$10,000 of each employee's annual earnings. The tax rate for employers varies depending on the number of their employees who receive unemployment benefits. Employers with a greater number of workers receiving unemployment benefits pay a higher rate. In 2005, the beginning tax rate for a new business in Colorado was 0.0252 percent of the first \$10,000 in wages.

To estimate the amount of unemployment insurance taxes paid for undocumented immigrants, we used the \$27,400 per household income average, with half the households working on the books jobs.

Using those numbers, the total unemployment insurance tax paid by Colorado employers for undocumented immigrants is estimated to range from \$12 million to \$15 million per year.

This total likely underestimates unemployment taxes because it assumes only one wage earner per household and only one job per wage earner. It is more likely that many households have at least two wage earners, and some work more than one job.

While employers pay unemployment insurance taxes for their workforce, state law prohibits undocumented workers from collecting unemployment insurance benefits.

#### Types of taxes paid

##### Income taxes

Because Colorado bases its state income tax on federal law, it is relatively simple to estimate state income taxes based on the federal income tax filings database maintained by ITEP.

##### Sales taxes

Sales taxes include general sales taxes, special sales taxes, gasoline excise taxes and tobacco excise taxes. Since sales taxes are paid with each purchase, they are impossible to avoid. Using its tax simulation model, ITEP examined the amount of state and local tax revenue and the incidence of current sales and excise taxes in Colorado to calculate the sales tax rate for unauthorized immigrants in 2005.

##### Property taxes

Property taxes are paid directly or indirectly. The most likely method for undocumented immigrant households is indirectly through their monthly rental bill. For this analysis, ITEP estimated the property tax rate paid through rent only.





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# State and local taxes paid in Colorado by undocumented immigrants

## □ Conclusion

### Conclusion

Estimating the number of undocumented immigrants living in the state and their income, remittance patterns and tax payments is an imperfect science. Reliable data for this population are sparse. As a consequence, our results and conclusions must be interpreted with caution.

Based on the most reliable data we have at this time, the analysis contained within this brief demonstrates that undocumented immigrants contribute to Colorado's economy and to the state's tax base. They buy goods and pay rent, and therefore pay sales and property taxes, even when they send remittances back home. It is also important to note that undocumented immigrants working on the books also pay state and federal income taxes and Social Security and Medicare taxes.

In 2005, the aggregate sales and property tax payments of undocumented immigrants living in Colorado ranged from \$135 million to \$164 million. When state and local income taxes for the 50 percent of undocumented immigrant households working on the books are added in, we find that immigrants paid between \$159 million and \$194 million to the state's coffers in 2005.

When the cost of providing federally mandated services to undocumented immigrants is evaluated within the context of state and local tax payments, we find that undocumented immigrants bear much of the burden themselves.

In 2004 and 2005, the cost of providing federally mandated services to undocumented immigrants totaled nearly \$225 million. Their state and local tax payments totaled approximately \$159 million to \$194 million. Thus, undocumented immigrant state and local tax payments amounted to 70 to 86 percent of the estimated costs of providing federally mandated services. These calculations are explored in depth in a companion issue brief, *Costs of federally mandated services to undocumented immigrants in Colorado*.

The debate over immigration reform arouses intense discussion about whether undocumented immigrants excessively burden Colorado taxpayers. Much of this debate revolves around the misinformed belief that undocumented immigrants impose massive costs on the state without paying taxes. This brief clearly shows that undocumented immigrants pay enough state and local taxes to offset a large share of the three federally mandated services: K-12 education, emergency medical care and incarceration.

The cost to the state will not be decreased if the Colorado Legislature or voters move to deny services to undocumented immigrants, because the federal government mandates these services.

The most effective solutions to the nation's broken immigration system are found at the federal level. We urge our state and local leaders to press the federal government to pass comprehensive immigration reform. They should also push the federal government to reimburse state and local governments for a greater share of the costs imposed by federal mandates.



## End Notes

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Undocumented annual income data from Passel, J.S. (2005).

<sup>19</sup> Tax data from Institute on Taxation and Economic Policy, Colorado 2005 tax data provided to the Bell Policy Center, May 2006.  
Sales tax amount is a Bell Policy Center calculation accounting for remittance payments and is based on Colorado 2005 sales tax data provided by the Institute on Taxation and Economic Policy.  
Estimates include the effect of remittances on sales taxes and assume 50 percent income tax compliance rate and 100 percent rental property and consumption sales tax.

<sup>20</sup> Income, property and sales tax estimates are based on ITEP analysis of Colorado 2005 tax data.  
Estimates include the effect of remittances on sales taxes and assume 50 percent income tax compliance rate and 100 percent rental property and consumption sales tax. Per family estimated taxes: income = \$491, rental property = \$105, sales = \$1,265.