Immigrants Are Integral to Our Nation's Economic Well-Being

I. Introduction

Undocumented immigrants make major contributions to the U.S. economy and the communities they live in as tax payers, consumers, and workers. While much attention has rightly focused on the broader impacts of large-scale deportations, this explainer will provide an overview specifically of the tax, spending, and labor contributions of the undocumented population and then briefly outlines the potential economic implications of losing these integral contributions.

II. Immigrants as Taxpayers

Contrary to common misperceptions, many undocumented immigrants pay income taxes each year. To encourage the payment of taxes by residents regardless of citizenship or immigration status, the IRS allows people to obtain an Individual Taxpayer Identification Number (ITIN). An ITIN number, as defined by the IRS, "is a 9-digit number the IRS issues if you need a U.S. taxpayer identification number for federal tax purposes, but you aren't eligible for a Social Security number (SSN)." It is estimated that there are approximately 5.4 million active ITINs.

In addition to ITIN numbers, a significant proportion of the noncitizen population – including undocumented immigrants – pays taxes using SSNs. Generally, immigrants with work authorization can obtain SSNs, so noncitizen legal workers can pay taxes using their valid SSNs. But in addition, a not insignificant number of noncitizens also pay taxes using SSNs, including those issued valid SSNs whose work authorization or lawful presence has lapsed (for instance, who overstay a valid immigrant visa) or even those who improperly use fictional SSNs or borrowed (or stolen) SSNs belonging to someone else to pay taxes.

While there are challenges in collecting data on tax payments from undocumented immigrants, the best estimates indicate that they contribute billions in tax payments. In 2022, undocumented immigrants paid a total of about $96.7 billion in federal, state, and local taxes. Of that total, $59.4 billion went to the federal government and $37.3 billion went to state and local governments.

Notably, undocumented immigrants often pay taxes at a higher rate than native-born or other authorized workers. In 40 states, they pay state and local income taxes at a higher rate than almost anyone else, often paying more than the top 1% income-earning households. This is because they are not eligible for most tax credits and many of these taxpayers do not claim refunds. A significant number overpay because they are not familiar with the U.S. tax code and lack resources to obtain professional tax filing assistance.

Beyond income taxes, undocumented immigrants also pay property, sales, excise and businesses taxes. Of the state and local taxes paid by undocumented immigrants in 2022, about $15.1 billion (46%) of those taxes were for sales and excise taxes, about $10.4 billion (31%) were for property taxes (both home and rental), and about $7 billion (21%) were for personal income and business taxes.

Even as they contribute tax payments at the federal, state, and local levels, undocumented immigrants typically have limited or no access to many of the programs they are paying into, such as Social Security, Medicare, and unemployment insurance. This means that these individuals are a relative windfall for governmental coffers and removing their tax revenues from the federal, state, and local treasuries would have a significant negative impact on these programs. For example, a 2023 report projected that the Social Security Trust Fund reserves would be depleted by 2034 – less than 10 years from now, likely leading to benefit reductions, if not addressed by Congress. Removing tens of thousands of immigrants who, on average, pay more in Social Security taxes than they receive in benefits, will only worsen this fast-approaching benefits cliff. Losing the tax contributions of this group will harm the soundness of the program, with negative consequences for everyone.

Yet, recent developments are likely disincentivizing undocumented immigrants from paying their taxes and reducing tax revenue. In April 2025, a Memorandum of Understanding (MOU) was reached between the IRS and DHS which allows the IRS to share taxpayer information with DHS, to help facilitate interior immigration enforcement. This MOU is a significant departure from existing privacy protections that have limited the sharing of tax information by the IRS. This policy change is likely to have multiple implications, leading many undocumented taxpayers to cease interactions with IRS and halt tax payments, out of fear of arrest, detention, and deportation of themselves or their family members.

III. Immigrants as Consumers

Immigrants play an important role in the economy as consumers, driving economic activity through the purchase of goods and services. The spending power of undocumented immigrants in the economy is an important contributor to economic growth, countering the faulty narrative that the immigrant community is a burden rather than a driver of economic growth.

It is estimated that the spending or purchasing power of undocumented immigrants was nearly $300 billion in 2023. That amount - just that one year alone – is hard to grasp. That means removing undocumented immigrants from the United States will remove billions of dollars in purchasing power, costing U.S. businesses significant sums. When these groups – and their family members – reside in the U.S., they spend money here, purchasing goods and services and benefiting the economy.

Immigrants – lawfully-present and undocumented alike – legally own homes, pay rent, and improve home values in many places that would otherwise be struggling, revitalizing neighborhoods, cities, states, and regions that have seen economic decline.

IV. Immigrants in the Workforce

Undocumented immigrants make up about 5% of the U.S. workforce, a number that spikes sharply higher in some critical sectors like agriculture, (45%), construction (14%), and hospitality (7%). These workers harvest the food we eat, tend the cows that produce the milk we drink, build the homes and apartments we live in, and make our travel and vacations more comfortable and satisfying.

In addition to the benefits of having an increased workforce in a number of essential sectors, undocumented immigrants start new businesses in the U.S. that hire workers (including U.S. citizens), making further labor force contributions. U.S. laws permit undocumented immigrants to start businesses, allowing them to invest in business startups, produce needed goods and services, and employ workers. There is a well-established history of immigrant entrepreneurship, with immigrants being more likely to start their own businesses than the native-born.

One of the best places to see undocumented immigrant entrepreneurship in action is on main street. Immigrant business owners commonly operate small community-centered businesses like gas stations, salons, dry cleaners, and grocery stores. It is estimated that there are over 1.1 million undocumented entrepreneurs in the U.S.

And increasingly, immigrant business owners are looking beyond main street, engaging in the tech sector and other STEM-related startups. Immigrant entrepreneurs are helping create jobs.

V. Implications of Taking Immigrants out of the Economy

As the Trump administration ramps up mass deportation efforts and engages in aggressive interior enforcement efforts, undocumented taxpayers, consumers, and workers are likely to withdraw from the economy, either through curtailing their public engagement or possibly through being arrested and deported. This reality is likely to limit their tax, spending, and labor contributions and lead to serious negative consequences impacting the broader U.S economy.

While the situation remains fluid six months into the second Trump administration, there are already some initial indications of negative economic fallout due to heightened enforcement and removal operations. There are also lessons to be drawn from past enforcement experience during the first Trump administration, and from states that have engaged in immigration enforcement efforts at the state level.

Loss of Tax Revenue

In McAllen, Texas, the mayor has noted a strong negative shift in local tax collections in response to federal and state immigration enforcement actions. This comes after breaking tax revenue collection in recent years.

A June 2025 report from Bay Area Council Economic Institute and by UC Merced Public Health Professor Maria-Elena De Trinidad Young projected that the mass deportation of undocumented immigrants in that state would result in a loss of tax revenue of $23 **billion** per year.

A 2024 report by the Social Security Administration (SSA) estimated a pre-Trump administration net migration baseline level of 1.2 million per year to the United States and estimated the lifespan of the Social Security trust fund based off that assumption. SSA noted that for every reduction of 400,000 immigrants, below the projected baseline, there will be a 11% shortfall in revenue for Social Security, further accelerating the depletion of its reserves.

Consumer Impacts

A June 2025 analysis by the Herman Legal Group examined potential impacts of immigration arrests and deportations on various workforce sectors, including the fiscal and economic consequences. The report also analyzed how increased immigration enforcement could impact immigrants' consumption patterns:

- Immigration enforcement fears cause immigrants to avoid public places including businesses
- Reduced spending on essentials including services out of concern for family safety. Other sources also report reduced income.
- Immigrants have increased cash withdrawals and significantly increased remittances.

In addition to creating shortages in construction labor that will negatively impact new housing startups, large scale deportations will remove immigrant homeowners, destabilizing housing markets. A 2017 Cato Institute report estimated that a large-scale mass deportation effort would result in a loss of about $1 **trillion** in U.S. housing wealth.

A previous state-level Arizona immigration crackdown in 2007 resulted in the departure of as many as 100,000 residents from the state, leading to a dramatic spike in rental vacancy rate (rising from 9.8% to 16.8%).

Labor Force Insecurity

A broad array of businesses are experiencing disruptions to their operations as immigration arrests are disrupting their labor force, local communities, and businesses. This includes resort locations, meat processing plants, restaurants, construction sites, and home improvement businesses. In 2025, other service related industries such as nursing homes are losing staffing and facing staffing shortages that risk decreasing the quality of care they can provide to the public.

Following the passage of Florida's state-level immigration enforcement legislation in 2023, there were signs that a significant proportion of its agriculture workforce left the state, and the Florida Policy Institute projected that in the first year the state economy could lose $12.6 **billion.**

Increasing strains nationwide on the agricultural workforce have led to a growing risk of food insecurity. Crops that are harvested by hand will rot in the fields if not harvested in a timely manner, including tomatoes, peaches, melons, grapes, cherries, and more. This leads to reduced production, waste, shortages, and higher food costs.

Construction is already feeling the impact of increased enforcement as many workers face arrest and removal and others stay at home out of fear. In south Texas's Rio Grande Valley, a July 2025 New Yorker article reported that construction sites that typically have four to ten people working now have zero to two workers, with increasing no shows. This results in fewer housing startups, reducing the supply of new houses and apartments.

Ultimately these disruptions to the U.S. workforce, in many different sectors, are likely to result in less availability of goods, increased costs, reduced quality of services, and higher inflation.

VI. Conclusions

Undocumented immigrants' contributions to the U.S. as taxpayers, consumers, and workers have long been underestimated and underappreciated. With a dramatic uptick in interior immigration enforcement, large numbers of longstanding residents face arrest and removal or are forced to reduce their public presence, with negative impacts on the broader U.S. economy. Six months into the new administration, these negative impacts are already becoming increasingly apparent and will have ripple effects throughout the economy, not just for immigrants but for communities, the broader economy, and the population at large.