Remittance Trends in the U.S. and the Impact of Potential Remittance Taxation

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Background

Until recently, the money management practices of Latino immigrants in the United States aroused little attention outside their own communities. That has changed during the past two decades as the flow of remittances⁠¹ to Latin America has increased four-fold. Although the size of the average remittance transfer is miniscule in the world of international finance, the cumulative sums have now captured the attention of government policymakers and bankers in the United States and Latin America (Suro et al, 2002).

In 2013, the total remittance flow to Latin America was $53.8 billion, approximately $22 billion of which was sent to Mexico (Cohn et al, 2013). U.S. residents were the source of 98% of all remittance money received in Mexico (Cohn et al, 2013).

According to a Pew Research Center survey, 54% of foreign-born Hispanics and 17% of U.S.-born Hispanics send remittances to their home country (Cohn et al, 2013). Data from the Mexican Migration Project found that remitters were more likely to be male, older, and undocumented, compared to non-remitters. Remitters were also more likely to have left their spouses, as well as dependents, in Mexico. Of household heads that migrated to the United States, 71% remitted money home on a monthly basis (Amuedo-Dorantes et al, 2005).

Methods of Remittance-sending

In the early 1990’s, the vast majority of both documented and undocumented Mexican migrants, declared using non-bank money transfer firms (MTFs) to remit money home. About 13% of documented and 20% of undocumented migrants used informal methods, such as friends, family, and cash in the mail, with approximately 4% relying on bank transfers to send money home. (Amuedo-Dorantes et al, 2005)

Since then, however, there has been a decreased use of MTFs to send remittances and an increased use of bank transfers. Significantly, bank transfer use among both documented and undocumented migrants rose from approximately 4% in 1993-94 to 16% and 18%, respectively, in 1999-2000. (Amuedo-Dorantes et al, 2005)

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⁠¹ Remittances are private financial transfers from migrants back to their countries of origin. They are typically intra-household transfers from members of a family who have emigrated to those who have remained behind.
Remittance Transfer Fees

The average cost of sending remittances to Latin America was 7.3% in late 2013, according to the World Bank. However, costs have declined significantly in recent years due to the growing prevalence of mobile banking and online money transfers (Cohn et al, 2013). Sending remittances through banks remains the most expensive method, with most banks charging an average of 13% of the total amount. Post offices and MTFs charge 9% and 7%, respectively (The Economist, 2010).
Impact of Remittances

Remittances have both direct and indirect benefits for recipient countries. Remittances directly augment the income of recipient households and contribute to basic living expenses such as food, clothing, and other necessities. Remittances also enable certain households to make investments in education, health, and housing.

Households that do not benefit directly from remittances may still benefit from the increase in domestic spending and growth caused by the influx of funds. Remittance flow to recipient countries has been linked to increases in domestic consumption spending, local investments and enterprises, and purchases of insurance and real estate (Ratha, 2007). Some studies have found that remittances have a multiplier effect, whereby the increase in domestic income is some multiple of the remittance income. In 2006, the World Bank found that each dollar sent by Mexican migrants residing in the U.S. was estimated to boost Mexican GDP by $2.90 (Mohapatra, Moreno-Dodson and Ratha, 2012). Between direct and indirect impacts, studies have shown that remittances can contribute to poverty-reduction and promote development in poorer recipient countries (Barry & Overland, 2010; Ratha, 2007).

Arguments for and Against Remittance Taxation

Arguments for remittance taxation have stemmed from the rationale that undocumented immigrants should pay fees, in some form, for the public goods and services that they currently use and don’t pay taxes for. Often, undocumented workers are perceived as taking more from the government budget in the form of social welfare and healthcare benefits than what they contribute in the form of tax revenues. Natives in destination countries, especially countries with high level of redistributive policies in the form of social welfare benefits, may resent the burden of providing social services to poor migrants. (Mohapatra, Moreno-Dodson and Ratha, 2012)

Proponents of remittance taxation have specifically noted the healthcare costs incurred by the undocumented. According to a U.S.-Mexico Border Counties Coalition study, undocumented immigrant treatment costs totaled $190 million for 77 border hospitals in 2000. Although these costs make up a small percentage of overall hospital expenditure, they will continue to place financial strain on border states and states with large immigrant populations. California, for example, is home to approximately 2.6 million undocumented immigrants, about one-quarter of the undocumented immigrants living in the U.S. (Hill & Hayes, 2013).

Those that oppose remittance taxation have argued that remittances are fundamentally private money that should not be expected to fund social or public welfare measures (Ratha, 2007). Furthermore, not all migrants who send remittances are undocumented. A tax on remittances sent home by immigrants legally residing in the U.S. would be additional to income taxes already paid by immigrants.

Taxing remittances would have an effect similar to increasing remittance costs, which would hurt poor migrants and their families in origin countries. Taxation would also serve to drive remittance flows into informal and underground channels (Mohapatra, 2010; Ratha, 2007).
Remittance Taxation in the U.S.

In 2009, Oklahoma implemented a $5 tax per remittance transfer in addition to an added 1% charge on amounts over $500. The tax applies only to remittances sent through money transfer firms and exempts remittances sent through banks or credit unions. Because U.S. citizens and legal residents can apply for refunds when filing state taxes, Oklahoma’s remittance tax appears to specifically target undocumented immigrants. The tax has been met with opposition by the Mexican Chamber of Deputies.

Summary

This paper is not a comprehensive document but very much a working paper that provides a level of discourse on the topic of remittances as means of generating tax revenue to finance healthcare for the many uninsured Californians who do not qualify because of their immigration status. The next steps will be advancing a more comprehensive paper by working with the academic community on alternative revenue sources and engineering business approaches to this vast and complicated healthcare challenge. The authors of this paper will continue to seek and research the topic of remittances and remittance taxation with the assistance of UC Berkeley School of Public Health and UC system to provide leadership and guidance to California Legislative Branch of Government.
References


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