



THE FINANCIAL CASE AGAINST AN AMNESTY FOR ILLEGAL IMMIGRANTS

Introduction

“Allowing long-term illegal immigrants to earn the right to stay in Britain would see ‘hugely increased’ tax revenues”

1. This paper considers this claim made by Boris Johnson, Mayor of London. It makes the financial case against an amnesty and shows that rather than leading to ‘hugely increased’ tax revenues an amnesty would actually lead to hugely increased costs.

Summary

2. The definition of ‘**paying tax**’ used by the government is that more is paid in income tax than is received in tax credits. That definition has been adopted for this paper.

3. No immigrant working a 35 hour week for the minimum wage pays tax in this sense so an amnesty would not lead to ‘hugely increased’ tax revenues unless a large number received huge pay increases.

4. We acknowledge that some immigrants will, once legalised, be paid above the minimum wage and have therefore used an hourly rate of £6.50 which is 77p above the £5.73 minimum wage. This implies that one third would earn £8 per hour while the remainder received the full minimum wage.

5. For a single person earning £6.50 an hour their excess of tax paid over tax credits received is £14.11 a week. But they will receive £27.24 in Housing Benefit and Council Tax Benefit and so they will actually **cost** £13.13 a week. These costs would be much higher for immigrants who already had a family or who brought their family from their country of origin (as they would become entitled to do) because they would receive much higher Tax Credits and Housing Benefits. No couples or families earning £6.50 an hour pay tax and their Housing Benefits are much higher than for a single person. For example, a couple with three children will receive Tax Credits (minus tax paid) of £150.69 and also Housing and Child Benefits of £151.19. Thus on top of their weekly wage, they will receive a further £301.88, or £15700 a year.

6. Because rents in London are much higher than in the provinces, a single immigrant would cost £85.51 a week (compared with £13.13 above) and a family with three children would cost £422.10 a week (compared with £301.88 above), or £21900 a year.

7. A family with three children would not start to pay tax until they were earning £13.80 an hour.

8. In total, an amnesty would initially cost the exchequer about £2billion a year. Eventually the immigrants would take on partners, have families or bring their families from their country of origin. This would lead to an eventual annual cost of approximately £4 billion a year.

The basis for the figures

9. The estimate for the number of illegal immigrants used in this paper is the same as that quoted by the Mayor - 700,000 of whom he believes 400,000 are living in London.

10. The Tax, Benefits and average Rents figures have been taken from The Department for Work and Pensions Tax Benefit Model Tables (April 2008 edition).

11. London rents are much higher than the average; they have been taken from the November 2008 Rent Allowances lists issued by The Rents Service, an Executive Agency of the Department for Work and Pensions. The Rents Service provides allowable rents for 10 'Broad Market Rental Areas' in Inner and Outer London so the average of these 10 areas has been used.

12. The Secretary of State for Communities and Local Government estimates that 90% of immigrants rent accommodation in the private sector. This paper has therefore been based on private sector rents.

Assumptions

Family sizes

13. Whilst the majority of illegal immigrants will be single men, many will eventually have a partner and children or will bring their partner and children from their country of origin. Thus the figures for tax paid and benefits costs have been provided both for single people and for families.

Hourly rates

14. Illegal immigrants will mainly be working at or below the minimum wage. As some would, if legalised, earn more than the minimum wage we have used a higher hourly rate of £6.50. This assumes that at least one third of immigrants will earn £8 an hour and two thirds will earn the minimum wage.

15. It should be noted that, once in receipt of benefits, there would be little incentive for employers or employees to increase their wage rates. This is because marginal tax rates mean that an employee is only 4.5p better off for every £1 of extra earnings (the benefit trap).

DETAILED RESULTS

16. It is estimated that of 700,000 immigrants, 400,000 are living in London and 300,000 elsewhere. Housing Benefit allowances are much higher in London than elsewhere and thus two sets of figures have been provided, one set for London and one set for elsewhere.

17. The following tax receipts and benefits payments have been included in the calculations:

Tax receipts

Income tax
Minus: Working Tax Credit
Minus: Child Tax Credit

Benefit payments

Child Benefit
Housing Benefit
Council Tax Benefit

The weekly cost to the economy that would result from each immigrant given an amnesty

18. The table below shows the **weekly** tax that would be paid by immigrants in London, assuming they are working. The end column shows the equivalent figures for immigrants living outside London – their costs would be lower because Housing Benefit payments are lower.

Family size	Tax paid	Benefits received	Total of tax paid / Tax Credits received and Benefits received	Equivalent Tax paid and Benefits received figures for an immigrant not living in London
Single person over 25	£14.11	£99.62	£85.51	£13.13
Couple no children	No tax paid - tax credits exceed tax paid by £19.93	£106.39	£126.32	£53.93
Family one child	Tax credits exceed tax paid by £70.50	£179.59	£250.09	£144.49
Family two children	Tax credits exceed tax paid by £110.60	£194.29	£304.89	£249.29
Family three children	Tax credits exceed tax paid by £150.69	£271.41	£422.10	£301.88

19. This table shows that even a single person would gain more in benefits than he paid in tax. Couples and families would be an even greater cost because they would receive more in Tax Credits than they pay in tax and, as well as receiving higher Housing Benefit for a larger house, they would also receive Child Benefit. Thus they would be a heavy drain on the exchequer not a huge source of additional tax. For example each family with three children would cost £422 a week or £22,000 a year.

The wage at which immigrants would start to pay tax

20. The minimum wage is £5.73 an hour. At this rate no immigrant working a 35 hour week would pay tax.). The hourly rates above which an immigrant family unit would pay net tax (i.e. tax paid minus tax credits) are:

Family size	Hourly rate
Single person over 25	£5.82
Couple no children	£7.47
Family one child	£9.92
Family two children	£11.85
Family three children	£13.80

However, whilst they start paying tax above these hourly rates the tax paid does not remotely cover their Housing and Child Benefit payments.

21. The figures so far included in this paper cover the **weekly** costs per immigrant. The next section provides an estimate of the total **annual** cost.

Annual costs of an amnesty

22. In September 2007 Migrationwatch responded to a paper by the Institute for Public Policy Research (IPPR) in which they too were proposing an amnesty for illegal immigrants. (See Migrationwatch Briefing Paper number 8.19).

23. The paper used IPPR research data to estimate the structure of the illegal immigrant population. The estimate took account of the following:

- the number of immigrants of working age (estimated at 82% of the total) and the number of children (estimated at 18%)
- for the working age illegal immigrants, the proportion that were active in the labour market (66.5%) and the number that were inactive (33.5%)
- for the illegal immigrants that were active in the labour market the proportion that were in employment (92.5%) and the proportion that were unemployed (7.5%)

24. The main source of this information was a study commissioned by the IPPR titled '**Beyond Black and White – Mapping new immigrant communities**'. Estimates were then made of the make up of the family units in terms of the number of single immigrants, couples without children and couples with children.

25. Using the same estimates we calculate that an amnesty for 700,000 illegal immigrants would cost **£2 billion** in respect of Tax Credits and Housing and Child Benefits for working families and Unemployment Benefits, Housing and Child Benefits for unemployed families.

26. Over time many of the single immigrants would form partnerships and have a family. We estimate that this would increase the annual cost of an amnesty to approximately **£4 billion**.

27. The tax and benefit rates for those in London and those outside are set out in the attached spreadsheets.

December 2008

TAX RECEIPTS AND BENEFITS PAYMENTS PER FAMILY GROUP:**OUTSIDE LONDON****£'s per week****HOURLY RATE USED BELOW:** **£6.50****Excess over minimum wage of £5.73:****£0.77**

Family group	Weekly gross earnings	NET TAX PAID (Income tax paid minus Tax Credits received)				BENEFITS RECEIVED					Net tax paid minus benefits received
		Income tax paid	Tax Credits received		Tax paid minus Tax Credits received	Housing Benefit received	Council Tax Benefit received	Child Benefit received	National Insurance paid	Total benefits received	
Single person over 25 in-self contained one bedroom accommodation	227.50	22.29	8.18		14.11	40.72	0.00	0.00	-13.48	27.24	-13.13
Couple, one partner working, no children	227.50	22.29	42.21		-19.93	47.48	0.00	0.00	-13.48	34.01	-53.93
Couple, one partner working, one child aged under 11	227.50	22.29	92.79		-70.50	68.66	0.00	18.80	-13.48	73.98	-144.49
Couple, one partner working, two children aged under 11	227.50	22.29	132.89		-110.60	118.62	2.19	31.35	-13.48	138.69	-249.29
Couple, one partner working, with three children aged under 11	227.50	22.29	172.98		-150.69	118.59	2.18	43.90	-13.48	151.19	-301.88
Couple, one partner working, with four children aged under 11	227.50	22.29	213.08		-190.79	118.55	2.17	56.45	-13.48	163.69	-354.48
Couple, one partner working, with five children aged under 11	227.50	22.29	253.18		-230.89	118.51	2.16	69.00	-13.48	176.20	-407.08