The Honorable Mike Crapo
Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Crapo and Ranking Member Wyden,

I am writing in my capacity as an analyst and expert working for more than 30 years in the study and policy design of the wider scope pertaining to remittance transfers. I have testified before the US Senate and Congress on various occasions, since 2001, to discuss matters of transaction costs, financial inclusion, regulations on money transfers and consumer protection.

For 10 years I was part of the FDIC's Advisory Committee on Economic Inclusion for Sheila Bair and Martin Greenberg. I also participated in preparing input for the draft of the remittance rule.

My opinion here is supported by decades of experience monitoring and proposing solutions to ensure reliable and fair money transfers worldwide including the design of the metrics of transaction costs, financial risks in money transfers and financial access efforts. Among other engagements I have shaped the input on financial access and transaction costs for the G20, the Millenium Development Goals and the Sustainable Development Goals.

The House's approved 3.5% tax amendment contradicts and adversely disrupts regulations regarding money transfers, which have been effective in preventing financial crimes and ensuring legitimate transactions, such as sending money to family members. Since 9/11, the Patriot Act and subsequent regulations and rules have been an effective material for regulating, monitoring, and preventing financially suspicious activities. The current amendment:

- Creates an unreasonable burden on millions of Americans when it comes to sending money abroad.
- It adds extreme complexity and business disruption to any regulated banking or nonbanking financial institution engaged in international money transfers as the requirements are beyond the scope of current practice allows.
- It will likely drive money transfers into unlicensed money transfer mechanisms, some of which may pose a financial risk to the United States.
- The tax includes foreign born taxpayers legally authorized to live and work in the United States.
- A remittance sender may choose to send less money, and in turn affect the United States:
    - Remittances reduce the intention to migrate at a time when migration had dropped.
    - US outbound money transfers correlate positively with US exports, a decline would also reduce the importation of US goods from the migrant's home country.
    - The decline will also affect economic growth in the developing world: a 3% decline in remittances reduces GDP by 1%

A. The Currently Approved Tax

Three pieces of the legislative amendment introducing the tax raise several issues: first, is the matter of who can send money and be tax-exempt; second, is the issue of how remittance transfer providers (RTPs) are required to confirm citizenship and tax status; and third, relates to cases in which an RTP is liable for that tax.

In the first case, the tax affects practically anyone who is not a U.S. citizen and carries an unreasonable burden on those who are. With regard to the latter, the text offers a tax exemption after verifying "the status of senders as citizens or nationals of the United States." That means, apart from close to 25 million naturalized citizens, any other United States citizen (of the close to three hundred million adult Americans) who wants to send a remittance transfer abroad would have to show proof of citizenship. Citizenship status by naturalization varies across nationalities and may be 53 percent of all foreign-born.

Overall, the request poses a serious inconvenience and privacy problem to U.S. citizens in providing that information. U.S. citizens would be compelled to carry their proof of citizenship or deal with the hurdle of requesting a tax credit—while still needing to show proof of citizenship at some point. Many American citizens, naturalized or native-born, donate funds to philanthropic and religious organizations abroad, and many individuals use remittance transfer providers to send charitable donations or to transfer money to friends or even relatives abroad (for example, a parent sending money to their child studying abroad, a former Peace Corps Volunteer sending to a friend living outside of the U.S.).

According to the Global Philanthropy Tracker, the United States makes US$49 billion in donations abroad, which includes individuals sending money to small groups. Twenty-six percent of Americans make charitable donations, and 6 percent of the total is sent abroad.

These types of family or charitable money transfers are not performed exclusively by the sending vehicle's definition (i.e. a remittance transfer provider), but by purpose. This means that today, individuals—regardless of their citizenship— not only use remittance transfer providers but also make electronic fund transfers through other acceptable electronic fund transfer methods, such as direct bank wires, mobile payment applications, or crypto wallets.

The tax applies to anyone who is not a U.S. citizen, whether they are a legally authorized or unauthorized migrant. As written, the tax will affect close to 50 million people in the United States, including green card holders (23 million), nonimmigrant visa holders (14 million), and the unauthorized population (12 million).

The consideration of who is exempt and who is not is not explained or justified, posing questions of validity— particularly because a remittance is an income transfer that is already being taxed, especially among those who are legally authorized in the United States. Moreover, research has shown that at least half of migrant workers without legal authorization use Individual Taxpayer Identification Numbers (ITINs) to pay income tax (in addition to local state sales taxes). Therefore, the income transfer, — whether domestic or international, incurs a transfer cost and the regulatory scrutiny about financial risk and money service transactions.[1]

[1] Those not paying income tax among remitters may be 20% of the total.

Table 1: Selected Latin American and Caribbean foreign-born nationalities in the U.S. by legal status

Migrant Nationality in the US	Natur-alized	Legal Perma-nent Resident	Non-Immi-grant visa	Other (unautho-rized, humani-tarian parole, TPS)	Est. migrant pop. US	On depor-tation order	US Citizens / Nationals	Un-authorized
Haiti	482,315	210,000	1,588	494,627	1,188,530	64,093	41%	42%
Mexico	3,745,000	2,920,000	2,309,854	3,873,030	12,847,884	1,278,155	29%	30%
Dominican Rep.	660,000	600,000	14,598	46,566	1,321,164	56,640	50%	4%
El Salvador	468,000	330,000	10,423	911,551	1,719,974	363,393	27%	53%
Guatemala	270,000	190,000	16,381	1,388,134	1,864,515	483,639	14%	74%
Jamaica	442,626	210,000	34,885	143,210	830,721	28,018	53%	17%
Nicaragua	131,100	*200,000*	3,321	787,702	922,123	80,133	14%	85%
Colombia	516,600	210,000	35,070	420,209	1,181,879	83,042	44%	36%
Honduras	154,000	*200,000*	11,972	1,102,940	1,268,912	494,000	12%	87%
Cuba	871,000	550,000	3,807	543,442	1,968,249	49,117	44%	28%
Venezuela	160,000	250,000	4,899	972,658	1,387,557	40,941	12%	70%
Selected	7,900,641	5,870,000	2,446,798	10,684,068	26,501,507	3,021,171	30%	40%

Source: Dept. of State, Nonimmigrant Visa Statistics; LPR Estimates, https://ohss.dhs.gov/sites/default/files/2024-11/2024_1108_ohss_lawful_permenent_resident_population_estimate_2024_and_revised_2023.pdf; Naturalized, Pew Research Center tabulations of the 2021 American Community Survey (1% IPUMS). Migrant pop. In the US, estimates from DHS Nationwide Encounters, estimates of migrant population from the ACS, and DHS estimates of the unauthorized population.

A second issue in the proposed amendment for a 5 percent tax concerns the requirement that a remittance transfer provider enter into an agreement with the Treasury and collect information on the sender. The text states that "any remittance transfer provider which enters into a written agreement with the Secretary pursuant to which such provider agrees to verify the status of senders as citizens or nationals of the United States in such manner" is a 'qualified' remittance transfer provider.

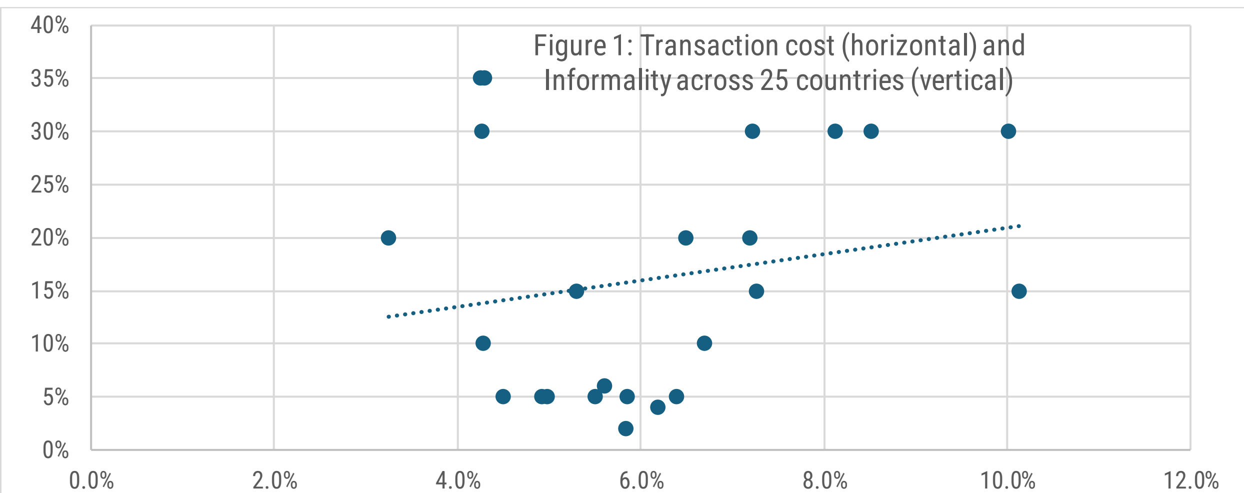
Although there are a few private entities that are authorized to verify a person's legal immigration status (employers, education centers), typically, only government agencies directly inquire about a person's citizenship status. This constitutes an odd and perhaps inconsistent request regarding the service required. The merits of confirming citizenship status have been tied to particular duties, such as serving on a jury, voting, holding public office, or getting a federal job. The amendment does not justify the legal reason to expect citizenship status to send money without paying a tax. Again, this procedure constitutes undue hardship because it is not a requirement that depends on reporting income transfers.

The third concern regarding the amendment relates to tax liability. Under the amendment, an RTP is responsible for paying the tax even if it does not control the intent of the sender. Specifically, the section referred to as "Application of Anti-Conduit Rules" establishes that a remittance transfer shall be treated as a financing transaction if it involves multi-party arrangements. For example, a U.S. citizen may send money for their spouse, yet the IRS could treat this as a conduit arrangement and penalize the RTP or require it to pay the tax. Under this arrangement, an agent of the RTP would be expected to assess the intent of the transfer subjectively. This situation extends beyond the existing responsibilities relating to fraud and financial risk prevention. The impact of these changes has consequences in the U.S. among businesses, migrant workers, and families receiving remittances.

B. Some consequences for the US of the proposed tax

The tax stipulated is a largely prohibitive amount that more than doubles the cost of sending remittances. A migrant worker earning an average of US$3,300 and typically remitting $400 pays $8 to send that amount. Increasing the amount by an additional $20 to remit the same amount will make it harder for a person with limited disposable income. The immediate consequence is twofold: when remittance prices are higher, people tend to opt out of using unlicensed mechanisms, and/or people may choose to send less money.

Research on transaction costs and informal fund transfers across different countries reveals that in remittance-receiving countries where transaction costs are higher, informal mechanisms are also higher—and vice versa. In fact, market competition has significantly lowered the cost of sending money and reduced the size of informal fund transfers to less than 3 percent in the U.S. and Latin American and Caribbean markets. This type of taxation has no precedent in the U.S. The closest reference is the $5 remittance tax from the state of Oklahoma, which indicates that the state collected $13.2 million in 2024 from the wire transfer tax (without a possibility of receiving a tax credit). This translates to approximately 150,000 transactions, representing 45 percent of the possible remitters who have paid the tax. It is unknown whether the remaining transactions from the 250,000 migrants in the state were transferred through other means or have ceased. Between 2013 and 2023, the migrant population in the state increased annually by 1.7 percent.



Source: Orozco, Manuel and Mariellen Jewers, The Impact of Remittances…

Moreover, people who remit are more likely to send less when costs are higher: the principal remitted among Haitians, Cubans, and Jamaicans is lower— at approximately US$250 per send— than that of those who send more, such as those from Mexico and Central America (average US$400). Statistically, a 1 percent increase in the transfer cost would decrease the amount sent by US$32.

Table 2: Transfer cost and average remitted

	Unweighted Average (when Sending US$200)	Average cost sending remittance	Average Remitted in 2024
Colombia	4.02 percent	3.24%	367

Dominican Republic	5.32%	3.06%	337
El Salvador	4.48%	2.95%	410
Guatemala	3.82%	2.63%	520
Haiti	4.39%	4.70%	160
Honduras	4.47%	3.09%	350
Jamaica	6.42%	5.10%	260
Mexico	3.68%	2.10%	510
Nicaragua	4.68%	3.08%	329
Nine Countries	3.89%	3.22%	351

Source: Pricing data collected by the author. Average remitted provided by RTPs.

An increase in the use of unlicensed mechanisms poses financial risks, as it reduces the government's capacity to monitor and scrutinize the purpose of private transactions.

Money transfer companies have developed robust compliance mechanisms to prevent financial fraud and crimes such as money laundering. They have worked diligently with FinCEN to report suspicious activities and alert them to potential crimes. One of the main advantages that RTPs have had is that all transactions are closely monitored and analyzed through controls of the sender and recipient, variations in the principal amount remitted, and the locations where money originates and is paid, thus minimizing the risk of a transaction that is outside the central tendency.

The use of informal, unlicensed, and unauthorized fund transfers in the twenty-first century is a complex matter because many financial payment companies are not necessarily registered as money services businesses (MSBs), yet they can still perform cross-border transactions. Remittance senders may utilize these services, including crypto wallets, to send money, as they are not regulated as a remittance transfer per existing law. Some crypto analysts may view this shift as a threat to their mechanisms that could disrupt existing volume, forcing them to shift toward regulation before the U.S. Treasury and state authorities.

However, other means of remitting may go under the regulatory radar, such as using existing debit cards shared with families in different countries for transactions. The primary risk, however, is that an increase in demand for unauthorized channels may lead individuals to establish cross-border payment outfits to perform U.S. dollar, stablecoin, or cryptocurrency transfers through a backend processor, remaining under the radar. Such outfits, once demand increases, could conveniently take the risk of offering services to people interested in money laundering.

The impact of the tax will also directly affect existing businesses insofar as an increase in informal fund vehicles will decrease their revenue. Because the money transfer industry has reached competitive economies of scale and prices are low, their revenue margins depend on increases in volume and services. The tax would adversely affect their bottom line. At this stage, in 2025, there are hundreds, if not thousands, of financial payment companies— ranging from large to small, fintech or traditional money services businesses— all of which may offer a remittance service as a money service business. The tax would affect these companies, their employees, and reduce federal and state revenue resulting from the loss of business activity.

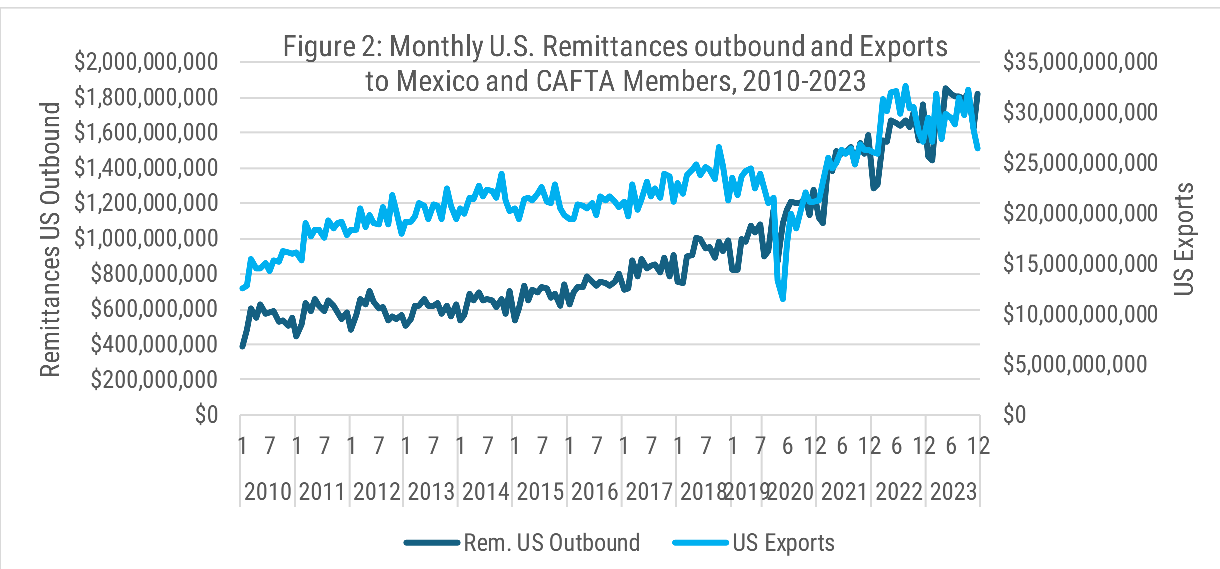
C. **The impact on remittance-receiving countries**

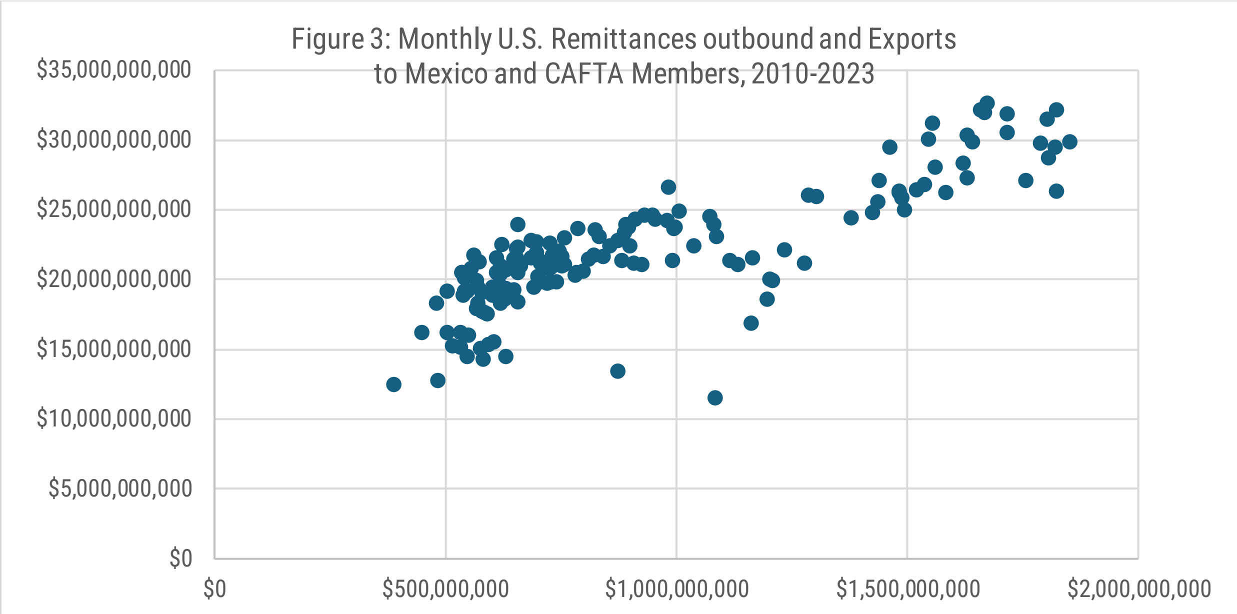
Currently, remittances have had a positive impact on economic growth in developing countries. In Central America, the flow of remittances has kept the development of gross domestic product stable. Similarly, outflows of remittances to the region correlate positively with outflows of U.S. exports to these countries.

The economic facts surrounding remittances merit attention. Remittances have a positive impact on the economic growth of home countries. The effect, when leveraged, can increase a country's economic competitiveness and improve relations with the United States. Moreover, U.S. outbound remittances to Mexico and members of the U.S. – Central America and Dominican Republic Trade Agreement (CAFTA-DR) correlate positively with U.S. exports to those countries. A decline in remittances would decrease trade with them—in 2024, the U.S. exported $381 billion ($334 billion and $47 billion by CAFTA-DR).

Additionally, family remittances have a positive impact on household income, increasing savings capacity and, in turn, reducing the intention to migrate. A potential decline in remittances due to taxation will increase the intention to migrate again, at a point when it was already in significant decline.

A shift toward an unauthorized mechanism and smaller amounts remitted would significantly reduce the volumes. Although it is difficult to ascertain what migrants— particularly those without legal authorization and more vulnerable to U.S. pressure— would choose to do, data on 25 countries over informal fund transfers and transaction costs suggests that the informal economy could grow to 30 percent.





At the same time, if the remittance amount decreases by $150 out of $400, the decline would be detrimental. The disruptive effect may be significant, particularly for countries that are more remittance-dependent, as well as for businesses, and increase financial risk.

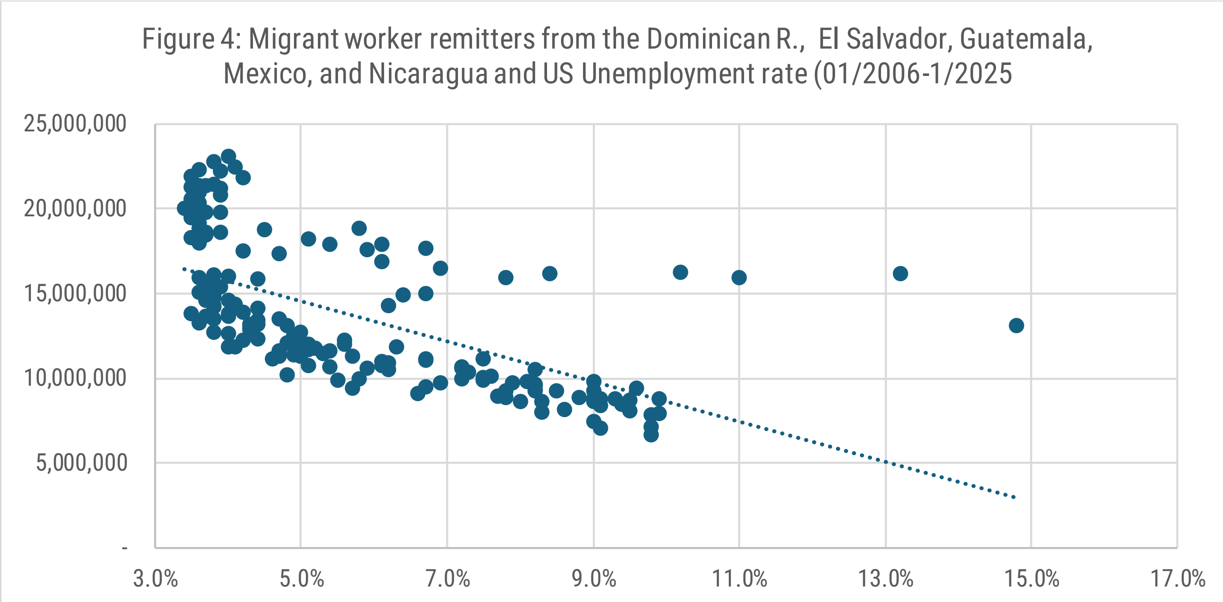
One conservative scenario of the tax's impact is that half of the unauthorized individuals and people in other legal categories (that's 35% of all remitters) would choose to send one-fifth less to compensate for the higher fees (from $400 to $320), while the rest would remain unchanged. The total volume would decline by 7 percent.

D. The elephant in the room: unauthorized migrants?

The primary argument in favor of this amendment is that it will discourage people from migrating, as they often do so to send money, and the tax would be onerous. However, the effect will harm all sectors, including U.S. national interests, because financial risks are likely to increase, economic relations may decline, and irregular migration could return.

The fact that some foreign-born nationals are living and working in the United States without legal authorization is undeniable. The determinants of this situation are complex and multifaceted. Many of the nationalities that arrived in 2018 come from politically challenging countries, to which a foreign policy approach could have mitigated migration.These nationalities have left due to political conditions in their homelands, including those in Cuba, El Salvador, Haiti, Nicaragua, and Venezuela.

There are also economic conditions that bring people to work in the United States— that is, there is a persistent and strong demand for foreign labor, particularly in both high-skilled and labor-intensive activities (see Figure 4 on the correlation between migrant workers and the U.S. unemployment rate).



The current taxing approach to addressing the immigration problem may not be practical in the long term, as the demand for low-skilled labor remains strong.

It is essential to find an alternative that is proportional to the issue of irregular migration and unauthorized migrants. This alternative may not exclude penalties or taxes, but rather be structured differently or fairly, including establishing conditional cooperation agreements with remittance-dependent countries to commit to economic development and democratization actions tied to stronger relations with the U.S.

With Regards,

Manuel Orozco
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Inter-American Dialogue