

April 2026

Remittances Under Desigualdad: Taxing Labor That Sustains Latin America

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Executive Summary

Remittances sent by migrants in the United States function as an essential support of economic stability across Latin America. In 2023, remittance flows to Latin America and the Caribbean reached USD \$155 billion, with the United States being the main contributor.¹ These transfers represent more than a household economic tool; they have become an essential part of the national economic structure, becoming a source of foreign exchange, domestic consumption, poverty relief, and informal credit substitution.² In assessing economic development, remittances are treated as a poverty-reducing mechanism in nations that have weak safety nets.³ In some economies, remittances have become one of the highest percentages of Gross Domestic Product (GDP) in the Western Hemisphere, particularly in Central America, where they exceed 20 percent of GDP in multiple countries. In several recipient countries, remittances now surpass formal development assistance, public welfare budgets, and, in some cases, major trade revenues, positioning them as an essential part of economic survival rather than temporary support.⁴

The recently enacted One Big Beautiful Bill introduces a 1 percent federal tax on remittance transfers beginning January 1, 2026, marking the first instance in which U.S. federal tax policy directly targets external remittance flows.⁵ If left unchanged, this tax will turn the cost of public revenue onto low-income migrant workers, reduce net income across borders, and reshape remittance-dependent systems throughout Latin America.

Background

Over the last twenty years, remittances have evolved from short-term family support into one of the most significant financial flows changing Latin American economies. Between 2000 and 2023, remittance flows to Latin America increased, surpassing the growth of foreign direct investment and development assistance.⁶ Unlike development aid or private investment, remittances increase during periods of inflation and political instability.⁷ This effect was clear during the COVID-19 pandemic, when regional GDP experienced a reduction while remittance flows increased, helping household consumption and preventing deeper poverty escalation.⁸ The Inter-American Development Bank (IDB) notes that when GDP contracted by approximately 7 percent in 2020, remittances grew by 8 percent, showcasing their role as a mechanism during a time of economic crisis.

For many Latin American economies, remittances provide consistent foreign exchange that supports currency stability, supplement household income in places where wages and public benefits are insufficient, and function as informal credit systems where financial access is limited. Unlike foreign investment, remittances enter the economy in small, frequent amounts that go directly into a household, leading to immediate economic

consumption. In some countries, remittances exceed total public social spending budgets, replacing state power with private transnational transfers. Nowhere is this more evident than in the Northern Triangle of Central America, where remittances account for 20 percent of GDP in multiple countries. As an example, remittances are nearly 30 percent of Honduras and El Salvador's GDP.⁹ In countries that lack strong social safety nets, remittances replace welfare systems in some instances; this pattern is observed in broader findings that remittances can reshape household labor decisions in settings with weak credit access.¹⁰

The importance of remittance flows is shown by a growing dependence on a group of the U.S. labor force: undocumented migrants. While the U.S. government tracks aggregate remittance totals, it does not differentiate them by immigration status, diminishing the scale of undocumented workers' contributions to economic stability in the hemisphere.¹¹ Demographic data show that undocumented workers are disproportionately represented in low-wage and essential industries with high remittances as part of their expenses, where workers frequently send small, consistent transfers rather than one-time sums.¹² These workers economically sustain their households abroad—where a single income source in the United States supports multiple dependents—highlighting the impact and importance of dollars sent and dollars taxed. In many cases, one paycheck earned in the U.S. can support an entire family abroad, making remittances a financial necessity.

The 1 percent remittance tax applies to selected transfer methods, including cash-based and intermediary-processed transactions, with implementation beginning in January 2026.¹³ Although small in percentage, the tax is incredibly relevant in a transfer system where even small increases reduce the purchasing power of the poorest households. Because remittance senders remit income after already paying domestic taxes in the United States, the remittance tax in practice is a secondary charge on post-tax earnings, which decreases the cash flow going to recipient economies.

Every reduction in remittance volume decreases liquidity in local economies where remittance dollars circulate quickly through food, housing, education, transportation, and informal markets. Studies show that remittances are most consistent among low-income senders, meaning that even small cost increases can reduce transfers rather than generate a proportional tax revenue.¹³ Transaction costs and remittances directly affect each other, even at small levels, altering the balance in ways that affect both parties, creating a policy problem: higher costs reduce remittances, decreasing consumption in receiving countries without necessarily increasing proportional tax revenue for the United States.

Problem Analysis

The introduction of a 1 percent federal tax on remittance transfers under the One Big Beautiful Bill (OB BB) is a shift in U.S. economic policy with important implications for international economic relations. For the first time, U.S. fiscal policy targets external remittance flows. While 1 percent seems minimal, its application to one of the largest remittance markets in the world produces economic consequences that echo across labor markets, household consumption, regional GDP stability, and future migration pressures. This policy shows a departure from taxing income or profit to taxing international transfers, an aspect usually seen as private household money rather than taxable revenue. ⁹

The economic significance of U.S.-Latin America remittance flows is the primary factor amplifying the tax's impact. In 2023, remittances to Latin America and the Caribbean reached USD \$155 billion.¹⁴ Mexico alone received over USD \$63 billion, while El Salvador, Honduras, and Guatemala remain among the economies most dependent on remittances in the world. When applied to 2023 flows, a 1 percent tax would take at least USD \$1.56 billion annually from migrant households. Because remittances are spent quickly on necessities, the welfare impact of losing even small amounts is larger than the tax rate suggests. ¹⁵

Unlike corporate remittances or investment repatriation, household remittances are generated through wage labor, not profit. Over 80 percent of remittance senders to Latin America work in low- and middle-wage sectors such as agriculture, construction, hospitality, transportation, domestic labor, and food services.¹⁶ Undocumented immigrants are highly represented in these sectors and remit consistently despite earning some of the lowest median wages in the U.S. These same workers contributed an estimated USD \$100 billion in federal, state, and local taxes in 2022 despite being excluded from most public benefits and welfare programs.¹⁷ The tax applies to income that has already been taxed, creating a secondary tax on the same dollar, but these taxes are focused on workers who lack political or economic protections.

Remittance economic demand is often seen as families attempt to maintain transfers even as costs rise but adjust by sending smaller amounts or reducing frequency. Because remittances in Central America circulate rapidly through local economies, reductions have a multiplier effect: “every 1 percent drop in remittances corresponds with an estimated 0.2–0.4 percent decline in household consumption”.¹⁸ Since household consumption makes up more than 70 percent of GDP in Honduras, Guatemala, and El Salvador, even minor disruptions in remittance flows could quickly affect local economic activity.¹⁹ Consequently, this shifts a household tax burden into a problem in countries that did not impose the tax but will face its consequences. ¹⁰

Beyond consumption, remittances serve as an informal credit backstop. Financial institutions in Central America often consider remittance receipts when issuing microloans and financing small businesses. When the volume of predictable remittance income declines, so does household access to credit, which restricts access to capital for families already excluded from formal lending markets. Because these loans are usually informal, remittances operate as guarantees of financial reliability in economic systems where traditional credit history is limited. ²⁰ Studies from Mexico also show remittances are associated with shifts in spending patterns, including health expenses, which is relevant because a remittance tax effectively targets the same household budgets that fund basic goods. ²¹

A 1 percent tax would take roughly USD \$630 million annually from Mexico alone and between USD \$120–170 million from combined flows to Guatemala and Honduras.²² These are not government losses but declines in low-income household spending power, meaning the tax removes money from economic circulation rather than transferring it between domestic sectors. Remittances are not driven by migration policy but by labor demand and wage differentials, meaning the tax does not prevent migration but does weaken the economic output of wages already earned. In addition, it’s been found that remittances interact with institutions and policymaking, which in the long term may hurt countries with weaker institutions when remittance flows are affected. ²³

Policy Recommendations

To prevent disproportionate economic harm while preserving federal revenue goals, U.S. policy should move away from this approach. First, the Department of the Treasury should create a Monitoring System in partnership with the World Bank and other Intergovernmental Organizations focused on migrants and economic impact. Second, current U.S. data collection does not separate transfers by immigration status, income bracket, sector of employment, or household dependency ratios, leaving policymakers with limited information. The IDB finds that remittance response to fee increases is prominent among low-income senders, and even a 1 percent increase reduces transfer capacity.²⁴ A formal monitoring mechanism and more robust data collection would enable evidence-based policymaking rather than revenue forecasting. Given the proof and data that remittances impact changes across institutions and household limitations, monitoring should explicitly track welfare outcomes (poverty, health, education) alongside total remittances flow. ²⁵

Finally, the United States should pursue remittance agreements with countries such as Mexico, El Salvador, Honduras, and Guatemala. These agreements would pair tax implementation with negotiated reductions in transfer fees, ensuring that household losses remain minimal.

Conclusion

The federal 1 percent tax on remittances introduced in the One Big Beautiful Bill represents a structural and legislative problem in how the United States treats outward financial transfers tied to migration. Though framed as a nominal tax, its cumulative effect disproportionately affects low-income migrant workers whose wages already undergo domestic taxation. In 2022, undocumented immigrants contributed USD \$96.7 billion in taxes while remaining excluded from most public benefits.²⁶ Remittances are not net income; they function as lifelines that sustain household stability, food security, education, housing, and healthcare across the Western Hemisphere. Overall, studies have found a correlation between remittances and poverty reduction and welfare improvements, highlighting that policies that reduce net transfers are likely to impose real human costs.²⁷

Applied to 2023 flows, the 1 percent tax would remove a minimum of USD \$1.56 billion annually from domestic family transfers.²⁵ Because remittances contribute to between 20–30 percent of GDP in countries such as Honduras and El Salvador, taxing them weakens informal safety nets and affects local economies; even if small fees are applied, this will reduce transfer size or frequency, especially among low-income individuals.²⁸ The policy does not prevent migration, which is driven primarily by labor demand and income gaps, but it reduces the economic impact of wages already earned while increasing financial risk to families and regional economies.

Endnotes

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² Inter-American Development Bank (IDB), *Remittances to Latin America and the Caribbean in 2024: Diminishing Rates of Growth* (Washington, DC: IDB, 2024).

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⁵ Internal Revenue Service, “Treasury, IRS Provide Penalty Relief for Remittance Transfer Providers Who Fail to Deposit Excise Tax under the One Big Beautiful Bill,” IRS News Release, 2025.

⁶ World Bank, *Migration and Development Brief 40* (Washington, DC: World Bank, 2024), PDF

⁷ Krishnan Sharma, *The Impact of Remittances on Economic Insecurity*, DESA Working Paper No. 78,/78 (New York: United Nations Department of Economic and Social Affairs, July 2009). PDF

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