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When citizens of a developing country decide to emigrate in search of a better future, their lives and those of their families are not the only ones affected. This decision can also have an impact on different aspects of the country of origin , such as income, inequality, the quality of its institutions, education, and job opportunities. One aspect that has recently drawn attention is the effect of emigration on the tax revenue of the countries of origin when they are underdeveloped. On the one hand, emigration results in a loss of human capital that no longer pays taxes in its country of origin and affects the labor market faced by local companies. On the other hand, emigrants often send remittances used for local consumption, on which taxes are also paid. This implies that the effect of emigration on total local tax revenue will depend on which of the two effects is the greatest.

A recent research paper involving Jhorland Ayala, a researcher at Banco de la República (the Central Bank of Colombia), assesses the impact of emigration on tax revenues in developing countries between 1990 and 2015. The research found that emigration generates higher tax revenue in developing countries, since the increase in consumption tax revenue is higher than the fall in income tax revenue.

The authors use five-year data from the International Migrant Stock from 1990-2015, according to which in 1990, there were 38 emigrants per 1,000 people from developing countries, and by 2015 this number had increased to 60, reflecting a growing trend of human capital flow from poor to rich countries. On the other hand, information on tax revenues comes from the International Centre for Tax and Development (ICTD), which contains annual tax revenue data by type of tax.

The results indicate that one more emigrant per 1,000 people increases tax revenue per capita by an average of USD 2.5. However, the results vary significantly according to the tax rate. For example, the income tax paid by companies decreases with higher emigration, while the tax on goods and services increases. One more emigrant per 1,000 nationals can increase tax revenue on goods and services per capita by USD 4.6 while reducing tax revenue to per capita income by USD 0.9. This last result is consistent with the hypothesis that emigration causes companies in the source country to pay higher wages to find skilled labor, given the demographic characteristics of emigrants, who are a young and generally highly educated portion of the population.

Table 1: The effect of emigration on tax revenue in developing countries

Note: Robust standard errors in brackets. *** p<0.01, ** p<0.05, * p<0.1. All estimates include country and year fixed effects . Additional controls included: GDP per capita, population, trade openness, international development assistance, foreign direct investment, inflation, and exchange rate against the US dollar.

	(1) Total	**(2) Income**	**(3) Goods and services**	**(4) Personal income**	**(5) Corporate income**
Emigration Rate	2,468*** (0,891)	-0,939** (0,416)	4,588*** (0,943)	-0,123 (0,446)	-1,218*** (0,392)
Additional controls	Sí	Sí	Sí	Sí	Sí
Constant	-125,417 (78,439)	-35,692 (24,796)	-232,001*** (66,398)	0,470 (27,699)	-13,026 (21,345)

The authors conclude that their findings are consistent with empirical evidence suggesting that remittances are an important mechanism for developing countries to increase tax revenues. They also conclude that emigration to developed countries has played a significant positive role in increasing tax revenues in developing countries.