GFS CONSULTATION

B.8 Recording Citizenship-by-Investment Programs

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Citizenship-by-investment (CBI) programs allow individuals to obtain an additional citizenship or passport by making economic contributions to another country. Such individual contributions may be large and, in the aggregate, have a macroeconomic impact. While some CBI programs require an investment and therefore easily fit under existing guidance for recording investments, others require a non-refundable contribution where the general principle for recording such transaction creates some ambiguity for compilers. Since the existing manuals do not describe CBI programs or provide advice on how to record them, it is recommended that the updated Balance of Payments Manual includes such guidance. This guidance note describes three options for how to classify nonrefundable contributions under CBI programs: taxes, purchase of services, or transfers. The IMF's Committee on Balance of Payments Statistics June 2021 meeting expressed equal preference for Options 1 (taxes) and 3.a (transfers, other than taxes) and agreed that the GFS community (via the GFSAC) and national accountants (via the AEG) be consulted before taking a final decision. The prevailing treatment and related clarifications will also have impact on government finance and national accounts, and coordination is needed to ensure consistency.

SECTION I: THE ISSUE

BACKGROUND

1. **There is a lack of clear guidance on how to record citizenship-by-investment (CBI) programs.** While for some countries, CBI programs—economies offering passports or residency permits against financial investments or direct payments—can have significant economic impact, statistical manuals do not explicitly mention such programs or advise on how to record them. The challenge for the compilers is how to classify contributions made under CBI programs that may be viewed as "outsized" payments compared to the cost of issuance of a passport or citizenship. These challenges generate uncertainties as to whether to treat these contributions (see paragraph 3 below) as taxes, services, or transfers, which in turn have different impacts on key macroeconomic variables.[2]

2. **What are CBI programs?** Citizenship-by-investment, immigrant investor, or economic citizenship[3] programs allow individuals to obtain an additional citizenship, passport, or long-term visa by making economic contributions to another country. CBI programs often have minimal to no residency requirements or look-back rules of past presence in the country. Most programs are designed with the notion to use the contributions to improve the welfare and economic development of the country.

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[2] This note only looks at CBI programs. While not all CBI program requires an investment is made, the CBI is commonly used wording, and therefore this terminology is kept here. Schemes, like work visa permits, that have been successfully monetized, although similar to CBI, are not considered here.

[3] The term economic citizenship is also sometime use in political science to describe how one's economic standing can influence one's rights as a citizen.

3. **There are four contribution mechanisms of CBI programs.** The most common contribution mechanisms for these programs include (i) significant purchases of land or property; (ii) business activities (e.g., investments in business assets/job creation schemes); (iii) investments in financial assets such as placing large deposits in resident banks or large purchases of government debt securities; or (iv) large, nonrefundable contributions[4] to the government, nominated development funds, or possible non-profit institutions serving households.

4. **For some countries, CBI programs have important macroeconomic impacts.** For instance, St. Kitts & Nevis collected large one-off fees amounting to at least nine percent of GDP in 2015, and five percent of GDP in 2016 in a development fund (St. Kitts & Nevis Sugar Industry Diversification Foundation, 2016). Similarly, for Vanuatu, these programs have become a regular source of government income; being able to run a government surplus allowing for a stimulus package in response to the COVID-19 crisis (Developblog, 2020). For Portugal, 13 percent of direct investment (DI) inflows in 2014 came from its Golden Visa Program that requires real estate investments (Gold and El-Ashram, 2015). Also, CBI programs are widespread; at least 23 countries spread over different continents have CBI programs of which around 11 offer citizenship or long-term visas for large one-off fees (Antigua and Barbuda, Cambodia, Dominica, Grenada, Malta, Moldova, Montenegro, St. Kitts and Nevis, St. Lucia, Thailand, and Vanuatu), see Business Insider (2018), which also provides an overview of the specifics of these programs.

5. **The statistical treatment—based on past advice and current manuals—has been to either treat CBI contributions as investments or taxes.** The recording of the first three refundable CBI contribution mechanisms, which are an investment nature, correspond directly to transactions for which the *Balance of Payments and International Investment Position Manual, sixth edition* (*BPM6*), already provides guidance and no further clarification is needed in the new manual:

- purchase of property/land: classify as DI,
- business activities: classify as financial assets (e.g., DI), or possibly in the capital accounts as acquisitions of nonproduced, nonfinancial assets (e.g., leases or licenses (see *BPM6*, paragraph 13.11–12)),
- investments in financial assets: per the classification of financial assets in *BPM6*, Chapter 5.

6. While not all individuals participating in a CBI program will take up (or will have already established) residency in the country offering the program, some may. According to *BPM6*, "a household is resident in the economic territory in which household members maintain or intend to maintain a dwelling" (paragraph 4.117) and "if the relation of the timing of the transaction [in financial claims] and the change of residence is unknown or effectively simultaneous, a convention can be adopted, such as that the change of residence occurs first" (paragraph 9.22). This formulation provides for two approaches on the time of the change of residency, if applicable. In the update of the manual, it would be useful to discuss this timing issues in new paragraph corresponding to *BPM6* paragraph 9.22. The two options allowable in *BPM6* are:

[4] While the term citizenship-by-investment seems not to cover nonrefundable contributions, CBI is the most used terminology and is in this note understood to also cover nonrefundable contributions.

- If the complier adopts the convention suggested by *BPM6* and change of residency is considered to occur before the contribution is made, then the contribution would be from one resident to another and no BOP transaction should be recorded.

- If the compiler considers the change of residency to occur after the contribution is made, investments would be recorded in the BOP and IIP, but would then need to be backed out of the IIP with valuation adjustments.

7. While the fourth contribution mechanism, nonrefundable contributions, are government revenues, the existing manuals does not provide direct guidance over what kind of revenues, taxes, purchase of service or transfers. Previous IMF technical assistance advice provided to country authorities was to treat this revenue as taxes. This advice was informed by the existing guidance in *2008 SNA*, paragraph 8.54, *BPM6* (paragraph 12.30) and the *Government Finance Statistics Manual 2014* (*GFSM 2014*—paragraph 5.81, fourth bullet) on how to record payments of fees that are "out of all proportion to the cost of issuance" [of license etc.]. Specifically, the CBI related passport fees seemed out of all proportion to the cost of issuance,[5] and it was recommended that the revenues be recorded in (i) the balance of payments as taxes in the secondary distribution of income account—as other current taxes; and (ii) in government finance as other taxes on use of goods and on permission to use goods or perform activities.

8. **The main shortcomings of the current manuals are the lack of guidance that directly addresses the unique characteristics of CBI programs.** CBI programs are unique by what can be viewed as substantial large individual nonrefundable contributions for households. When contributions are large, the guidance in *BPM6* between the guiding principle and the conventions for certain types of transactions can be viewed as contradictory to the compiler. On one hand, if the fees charged are out of proportion to the cost of issuance (*BPM6*, paragraph 12.30) or only little work is needed on the part of the government (*BPM6*, paragraph 10.180; *2008 SNA*, paragraph 8.54; and *GFSM 2014,* paragraph 5.73), then these fees are taxes. Clearly, large nonrefundable fees under CBI programs fits both descriptions. On the other hand, *BPM6* (paragraph 10.181) splits by “convention” between different types of government licenses, permits, passport, and so forth into either taxes or purchase services. According to this *BPM6* convention, amounts payable by household for passports are treated as purchases of services. Clearly, most nonrefundable contributions under CBI programs also fit this description and would then be services. This guidance can be perceived by the compilers as contradictory and lead to confusion as to how to record transaction under CBI programs.

9. **An additional complication arises when the nonrefundable contributions are paid to entities outside the boundary of general government.** Under some CBI programs, the government has designated specific entities to which the nonrefundable contributions are paid such as national development funds or other entities that may be classified by the authorities outside the general government. It can be argued that the authority to issue passport or granting citizenship solely rests with the government. Therefore, while it may that the payment for the CBI has to be made to an entity outside the government this is by dictate and is effectively tantamount to revenue to general government than is then passed on to said entity. In this case, as is standard practice for GFS, the payment needs to be rerouted as transactions between the central government and the individual nonresident and through the

[5] For the compilers some of the confusion as the proper recording may come from reconciling the out of proportion principle with *BPM6* (paragraph 10.181), where passport per convention is purchase of service.

government accounts to the ultimate receiving domestic entity (these transactions between resident units are not relevant for external accounts). The compilation challenges here would be those of handling extra budgetary transactions for which data may not be available to the compilers. The issue of whether to reroute or keep the transactions with the direct recipient domestic entity needs to be coordinated with government finance statistics. In the subsequent discussion, it is assumed that these nonrefundable contributions are being recorded with the central government for external account statistics purposes.

ISSUES FOR DISCUSSION

10. **While the recording for CBI programs refundable contributions follows standard financial account recording, the outstanding question is how nonrefundable contributions should be treated.** Are revenues from nonrefundable contribution taxes (and if so, what type of taxes: current or capital taxes?), sales of services, or possibly transfer? Below are three different options discussed for how to treat these contributions.

11. **Option 1: Taxes. The argument for considering this revenue as taxes is mainly to look at it from the viewpoint of the country with the CBI program.** Here existing manuals offer two relevant criteria. First, "the out of proportion" criterium—see *SNA 2008* (paragraph 8.54), *GFSM 2014* (paragraphs 5.81, fourth bullet; and 5.138), and *BPM6* (paragraph 12.30)—tests a payment of fees to the government against the cost of issuance of permits, licenses, etc. If these payments are "out of all proportion to the cost of issuance" these fees are considered taxes. The second criterium looks at "how much work on the part of the government is involved" (see *BPM6,* paragraphs 10.180–181). If there is little work on the part of the government, and the issuance of such passport/residency permits is granted automatically on payment, such payments are "simply a device to raise taxes, even though the government may provide some kind of certificate…" (*BPM6*, paragraph 10.181). The large nonrefundable contributions under CBI programs can reasonably be viewed as both out of all proportion and only entailing little or cursory work on the part of the government. In this case, the contributions would be treated as taxes. To treat these contributions as taxes is also supported by the notion that CBI programs are designed to improve the government's finances. Such taxes would most likely be akin to capital taxes, considering their irregular, infrequent, or once-off nature (see *BPM6*, paragraph 13.28) but it is not a complete analog because such taxes are <u>on the values of the assets</u> or <u>net worth</u> owned by institutional units or <u>on the values of assets transferred</u> and CBI is not an asset because it is not transferable. Alternatively, these contributions if recurrent in nature could be considered as current taxes under the secondary income account under the current account. This option is based on the premises that non-residents can enter voluntarily into a tax obligation.

12. **Option 2: Services. The principle argument for considering these contributions as purchase of services is mainly looking at it from the viewpoint of the person taking advantage of a CBI program.** For this person, these contributions can be viewed as neither compulsory, nor unrequited. Specifically, it can be argued that since non-resident non-citizens are able to exercise meaningful choice when buying secondary citizenship, and "shop around" between these different countries, and, unlike when citizens buy their own passports, are clearly making a decisions to buy something of value or otherwise this person would not have entered into a CBI arrangement. Secondly, classifying these transactions as services would be followed if the treatment is that of the standard fees for passport issuance. In this case, these revenues would be recorded in the current account as service.

13. **Option 3a: Transfers, other than taxes.** If the contribution is considered not to be taxes, it can be reasonably argued that the nonrefundable contributions are so large compared to value of the passport, that these contributions are unrequited. In this case, the contributions would be transfers. Considering that most of these programs are designed with the objective to improve the welfare and economic development of the country, see paragraph 3 above, such contributions could be viewed to serve a purpose similar to what is recognized as in *GFSM 2014* (paragraph 5.148, sixth bullet) as capital transfer in the form of “exceptional large donations”.[6] However, if the CBI programs is a common policy and revenue generator of a country, it may be difficult to consider these as exceptional once-off events and therefore as capital transfers.

14. **Option 3b: Partitioning between transfers, other than taxes, and Services.** Since under any CBI program there are some costs associated with running the program, a possible option would be to split the nonrefundable contributions into a small service component reflecting the cost of processing applications and issuing the passport, and consider the remaining amount as transfers. The main advantage of this hybrid option is that since it could be considered misleading to record the full revenue as sales of services, this option will provide for a split between services and transfers.

15. **In determining the best suitable options, analytical and user-need considerations are also important.** The options will have markedly different analytical interpretations of key macroeconomic headline numbers. For the countries for which CBIs are important, the main analytical impact are as follows:

- for option 1 tax: increase tax revenues, which may lead to interpretation of high tax-to-GDP burden or effective tax collection;
- for option 2 service: a positive effect on the current account through the service component, which may lead to interpretation of improved external competitiveness;
- for option 3 capital transfer: this classification would improve the capital account, which (often for analytical purposes) is viewed as more volatile and difficult to interpret. Although CBI will not be a standard component, countries for which CBI are important can publish a line “of which”.

SECTION II: OUTCOMES

16. **It is proposed to reflect explicit guidance on the recording on CBIs programs.** For CBI programs that entail nonrefundable contributions further guidance is needed. For CBI programs that entail refundable contributions, which are in the form of a financial investment, the current guidance of financial investment in *BPM6* is sufficient.

[6] “Exceptionally large donations receivable from households or enterprises to public sector units to finance gross fixed capital formation: for example, transfers for the construction or purchase of hospitals, schools, museums, theaters, and cultural centers, or gifts to universities to cover the costs of building new residential colleges, libraries, laboratories, etc.” While these contributions have some of the same characteristics as those of investment grants (see *BPM6*, paragraph 13.25), such investment grants are only provided by governments or international organizations.

17. **The Guidance Note (GN) puts forward three options to classify those nonrefundable contributions under CBI programs.** Option 1 is to look at the transactions from the viewpoint of the country thus recording as taxes under secondary income. Option 2 treats them as purchase of services. Option 3 is to consider these nonrefundable contributions as transfers other than taxes (option 3a), or 3(b) partitioning between transfers, other than taxes, and services. Annex II identifies what sections of the new BPM needs to be adjusted.

18. **The Balance of Payment Task Team (BPTT) consultation revealed different views on the proposed options.** BPTT members were divided between Option 1 (taxes) and Option 3 (transfers) while there was less support for option 2 (services). Members who expressed support for Option 1 put forward that if payments were compulsory the treatment will be taxes. Recording as transfer is not appealing given that the transaction seems remote from typical grants. It might not be viewed as a transfer but rather as a tax given that the citizenship depended on this payment. Members who expressed support for option 3 premised that the payment was considered unrequited and not compulsory.

PUBLIC CONSULTATION:

19. **The public consultation revealed general consensus for providing explicit guidance on how to record CBI programs in the update of the manuals, with a slightly higher majority of respondents supporting guidance by convention so as to allow for uniform treatment across economies**. There was a slight majority in favor of Option 1 (taxes) over Option 3(a) (transfers, other than taxes), mostly associated with whether respondents considered these payments as either compulsory or voluntary.

20. **Whether taxes or transfers, views weighed in for current (instead of capital) payments, with no counterpart (e.g., ownership rights on real or financial assets)**. From a practical perspective, the importance of a comprehensive guidance on all types of CBI programs and a consistent treatment with the government finance statistics and national accounts were emphasized.

JUNE 2021 IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS MEETING

21. **The IMF Committee on Balance of Payments Statistics (Committee) members expressed preference for Options 1 and 3.a with split views between both options and agreed that including a typology describing the different existing programs in the Compilation Guide may help compilers.** While some members considered that the distinct specificities of the different programs in different economies may not necessarily call for a single approach, most members were of the view that differences in the programs may not be so substantial to justify dissimilar treatments and favored the adoption of a convention to ensure consistent treatment and cross-country comparability.

22. **Committee members acknowledged and supported the view that the national accounts (through the AEG) as well as the government finance statistics communities (through the GFSAC)) should be consulted before taking a final decision.** This will ensure a coordinated approach across statistical domains.

REJECTED OPTIONS.

23. Option 2, which recommended to record these transactions as purchase of services, was mostly rejected. The argument that non-resident non-citizens are able to exercise meaningful choice when

buying secondary citizenship, and “shop around” between these different countries was viewed as weak. The option of partitioning between a (smaller) service component and transfer, other than taxes, was viewed generally as less attractive on practical compilation grounds; the purchase of service part would be small and insignificant compared to the transfer part.

Annex I. Supplementary Information

REFERENCED DOCUMENTS

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Annex II. List of Chapters to Update

STATISTICAL MANUAL – CHAPTER AND PARAGRAPH

- *BPM6*, Chapter 4, section E: “Residence”: include a mentioning of CBI programs,
- *BPM6,* Chapter 9, section B: “Other Changes in the Volume of Financial Assets and Liabilities” paragraph 9.22; to discuss timing of change in residency, if applicable, in connection with CBI programs
- *BPM6*, Chapter 10, Section C: “Service” paragraph 10.180–181: possible CBI to the relevant convention if applicable,
- *BPM6*, Chapter 12, section C: “Current Transfer” paragraph 12.30: include guidance on recording CBI as relevant,
- *BPM6*, Chapter 13, Section C: “Capital Transfer”, paragraph 13.19–13.35: include guidance on recording CBI as relevant.

The prevailing treatment and clarification will also have impact on government finance statistics and national accounts, and coordination is needed to ensure consistency.