APPROVED/FINAL VERSION

B.8 Recording Citizenship-by-Investment Programs

B.8 Recording Citizenship-by-Investment Programs[1]

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 nonrefundable 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 considered important to include such guidance in the updated Balance of Payments *and* System of National Accounts Manuals*. This guidance note describes three possible options for classifying nonrefundable contributions under CBI programs: taxes, purchase of services, or transfers. Following consultations with the IMF's Committee on Balance of Payments Statistics, the Advisory Expert Group on National Accounts (AEG), the Government Finance Statistics (GFS) Community, and users within the IMF, the GN recommends that nonrefundable contributions to government (or their nominated agency) under CBI programs are treated as non-tax revenue (transfers not elsewhere classified) in macroeconomic statistics. Given the variation in operationalization of CBI programs (nonrefundable contributions type), the GN recommends that the choice of transfer (current or capital) should be based on the specific nature of the program following the statistical principles from the manuals.*

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

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[1] Prepared by Thomas Elkjaer, David Bailey, Padma Sandhya Hurree Gobin, and Venkat Josyula (all IMF). Grateful for discussion with Phillip Stokoe (IMF) and Prunela Charles-Williams (Eastern Caribbean Central Bank).

[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.

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.[4]

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[5] to the government, nominated development funds, or possibly 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. **CBI programs differ from travel visas (for tourism, business, and residency).** In the case of travel visas an individual is seeking permission to travel to a country and may only legally do so once the appropriate visa has been received. In the case of a CBI program an individual is seeking a "fast track" way to obtain citizenship of a country, usually without taking up residency in the country. Indeed, there are usually either no, or minimal, requirements for the recipient of the citizenship to even visit the country. While undoubtedly some individuals participating in a CBI program will take up (or will have already established) residency in the country offering the program, many will not.

6. **The statistical treatment—based on past advice and current manuals—has been variable with CBI contributions treated as investments, transfers, sales of services 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,

[4] Some of these programs allow the applicants to move their family to the new host countries (i.e., programs with the "option to relocate and the right to live, work, study, and receive healthcare in their new countries of residence"). For these cases it can happen that, after the initial investment, a change not only in citizenship but also in residency will follow soon after with corresponding implications for balance of payments and international investment position.

[5] 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.

- 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.

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.** Recent IMF technical assistance advice provided to one country authority 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,[6] 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 with respect to the substantial large individual nonrefundable contributions paid by 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 fit 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 be that the payment for the CBI has to be made to an entity outside the government this is by dictate of the government and is effectively tantamount to general government revenue that 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 government accounts to the ultimate receiving domestic entity (these

[6] 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.

transactions between resident units are not relevant for external accounts). The compilation challenges here would be those of handling extrabudgetary 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 within 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 transfers? 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. 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 citizenship 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.[7]

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 decision to buy something of value as otherwise this person would not have entered into a CBI arrangement. Secondly, classifying these

[7] A tax recording presupposes that the payment is compulsory and unrequited. This is debatable and more discussion on these concepts and how to apply them can be found in guidance note WS.14 "Distinction Between a Tax and Service Transaction and other Borderline Cases".

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 payments for services.

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".[8] 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 could be seen as current transfers instead of 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. **Annex II provides a summary of the arguments for and against each of the three options.**

16. **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".

17. **Table 1 summarizes the main impact of each option on both fiscal and wider macroeconomic statistics from the perspective of CBI providing countries (rather than the resident countries of the households acquiring additional citizenship under these programs).**

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[8] "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.

18. **The main fiscal impact stems from whether the revenue is considered tax or non-tax revenue,** which has a direct bearing on the tax burden, and so can impact assessments of the wider economy given the different relationship between taxes and other economic activities, and non-taxes. The tax vs non-tax distinction is also one which can have political sensitivities, particularly in those countries with low income and corporation tax rates, such as many of the countries offering CBI schemes with large nonrefundable contributions to government.

19. **For external sector statistics the important aspect is whether the transaction is treated as current or capital.** If the transaction is considered current then it will impact the current account balance, an important indicator of the external sustainability of the economy. If treated as a capital transaction then this will impact the capital account, with arguably less impact on economic analysis.

Table 1. Impacts of Different Treatments on Key Macroeconomic Statistics Indicators[1] (for countries with CBI programs)

Macroeconomic Statistics Indicator	Taxes		Services	Transfers	
	Current	Capital		Current	Capital
Government Finance Statistics					
Total revenue	increase	increase	increase	increase	increase
Tax burden[2]	increase	increase	-	-	-
Gross/net operating balance	increase	increase	increase	increase	increase
Overall fiscal balance	increase	increase	increase	increase	increase
National Accounts					
GDP (Gross Domestic Product)	-[3]	-	increase	-	-
Gross saving	increase	-	increase	increase	-
Balance of Payments					
Current account balance	increase	-	increase	increase	-
Capital account balance	-	increase	-	-	increase

[1] The table indicates how a particular indicator will be impacted (increase, decrease or be unchanged) pursuant to the treatment for nonrefundable contributions, against a baseline where the contribution is not included in the macroeconomic statistics.

[2] Tax burden is total value of all taxes, usually presented as a percentage of GDP.

[3] On the understanding that the taxes would be included under current taxes on income, wealth, etc. and not as taxes on production.

SECTION II: OUTCOMES

20. **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.

21. **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 3b partitioning between transfers other than taxes, and services. Annex V identifies what sections of the new BPM need to be adjusted.

22. **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. For these members, recording as a transfer is not appealing given that the transaction seems remote from typical grants. Members who expressed support for option 3 premised this view on the payment being considered unrequited and not compulsory.

PUBLIC CONSULTATION:

23. **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 3a (transfers, other than taxes), mostly associated with whether respondents considered these payments as either compulsory or voluntary.

24. **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

25. **The IMF Committee on Balance of Payments Statistics (Committee) members expressed preference for Options 1 and 3a 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.

26. **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.

SUMMARY OF CONSULTATION WITH THE GOVERNMENT FINANCE STATISTICS COMMUNITY[9]

27. **While a slight majority favored recording nonrefundable contributions as taxes there was significant diversity of views, and it was not possible to reach a firm conclusion.** It was notable that all respondents from countries with CBI schemes involving large nonrefundable payments to government favored treating it as non-tax revenue, although with some differences in the type of non-tax revenue. There was little consensus on either what type of tax should be recorded (if a tax treatment is followed) or what type of transfer should be recorded (if a transfer treatment is followed).

SUMMARY OF CONSULTATION WITH THE ADVISORY EXPERT GROUP (AEG) ON NATIONAL ACCOUNTS

28. **The AEG preferred a recording of CBI nonrefundable contributions to government as current or capital transfers but noted that CBI programs differ and in some instances a tax recording may be justified.** Further, the AEG suggested distinguishing the nonrefundable CBI contributions as either current or capital based on the general SNA principles (per the distinction between current and capital in *2008 SNA* paragraphs 8.38–40).

CONSULTATION WITH USERS WITHIN THE IMF

29. **The global consultation and the consultations with the Committee, AEG, and GFS community revealed split views** over both the type of transaction with government—either a tax, transfer, or service—and whether the transaction should be considered current or capital in nature. It was therefore decided to collect the views of users within the IMF departments.[10]

30. **There was unanimous agreement from the IMF users that clear guidance on this topic was important and that recording nonrefundable contributions under CBI programs as taxes was <u>not</u> appropriate.** However, there was no consensus among respondents on what type of non-tax revenue it should be (i.e., current/capital transfer or services)—"One size fits all" approach may not be appropriate for classifying the nonrefundable CBI contributions. Overall, it is considered that the contributions could be recorded as whichever type of non-tax revenue is most appropriate, depending on the details of the CBI program and the intended uses of the contributions (rather than following a single classification in all the instances). For further details on the summary of consultation, refer to Annex III.

[9] Consultation documents can be accessed here.

[10] In order to consult with users within the IMF, a cover note was prepared highlighting the impact of the different options under consideration (Table 1 and Annex II were included in the note).

REJECTED OPTIONS

31. **Option 2, which recommended to record these transactions as purchase of services, was mostly rejected.**[11] 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, Option 3b, was viewed generally as less attractive on practical compilation grounds;**[12] given that the purchase of service part (based on administrative costs) would be small and insignificant compared to the transfer part.

Recommendations[13]

32. **While it is clear from the consultations undertaken that there remain divergent views on how to treat payments to CBI programs, the GN recommends that nonrefundable contributions to government (or their nominated agency) under CBI programs are treated as non-tax revenue (transfers not elsewhere classified) in macroeconomic statistics.** This treatment reflects the current approach of countries with relevant CBI programs in place, and addresses the concerns raised by IMF users on the interpretation of macroeconomic statistics related to CBI programs. This treatment would recognize the non-compulsory nature of the transaction (as households can gain citizenship in other ways—such as living in the country for a required number of years) and that the nonrefundable contributions are significantly greater than the immediate administrative costs in managing the scheme and providing the citizenship/passport.[14] Given the variation in operationalization of CBI programs (nonrefundable contributions type), the choice of transfer (current or capital) should be based on the specific nature of the program following the statistical principles from the manuals.

33. **Annex I provides a schematic decision tree which is proposed to be used to help compilers classify payments under CBI programs.**

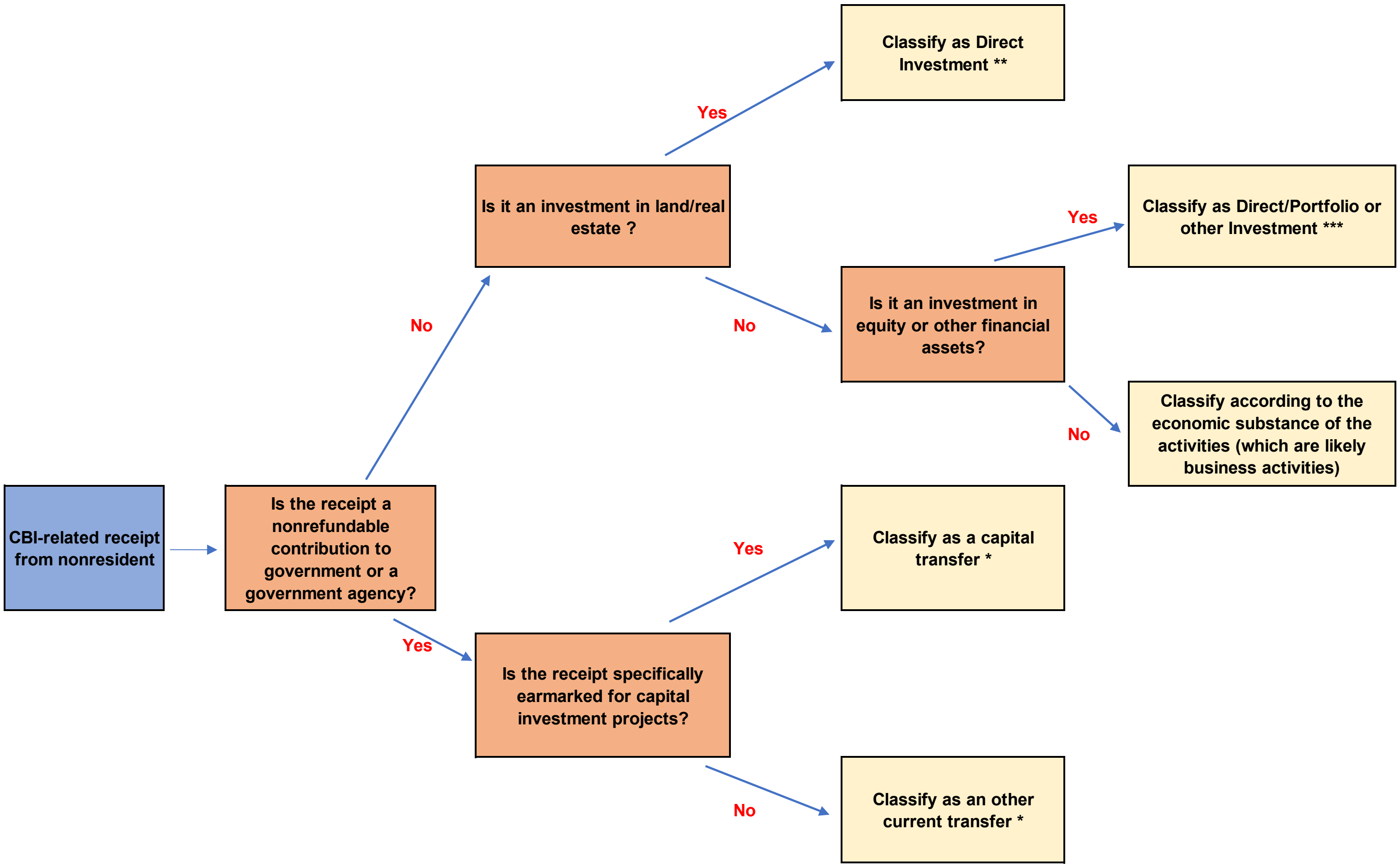
[11] Option 2 did receive some minority support during the GFS and Fund Departments consultations. Those in favor of this option generally argued that the value of citizenship extends well beyond the administrative costs of providing a passport.

[12] Option 3b has conceptual merits as it distinguishes between the immediate service element, as reflected in government output, and a transfer element. However, it has been rejected on practical compilation grounds.

[13] The Committee and the AEG unanimously supported these recommendations through written procedure. Regarding the consultation with the GFS community, one of the members maintained their previous view that these nonrefundable contributions are compulsory and so should be treated as taxes.

[14] While it is recognized that participants in CBI schemes are receiving something of value (i.e., citizenship in exchange), the payments received by government are non-compulsory and out of proportion to the cost to government of administering the scheme and providing the citizenship. To reflect the economic substance of the transaction, the nonrefundable contribution would perhaps be best if partitioned into a transfer element and a service element. However, it is not recommended in this note to partition in this way given the minimal administrative costs for these schemes when compared to the revenue received, and the complexity involved in estimating the value of the service. A similar practice is followed in recording the entirety of payments to government for mandatory (compulsory) permits as taxes (when the payment is out of proportion to the administrative cost) rather than partitioning the payments between taxes and services (see *2008 SNA,* paragraphs 22.88–22.89 and *GFSM 2014,* paragraphs 5.73–5.74).

Annex I. Proposed Decision Tree to Assist Compilers in Classifying CBI Payments



* If payments can be separated into capital and non-capital elements then the payment can be partitioned between capital transfers and other current transfers.

** Resident branches, or notional units, are identified when nonresidents own land/real estate. The nonresident is treated as owning the notional resident unit, rather than owning the land or structures directly.

*** For example: i) Investment in equity: entitles 10% or more of the voting power in the enterprise, classify it as direct investment or otherwise as portofolio investment; ii) investment in debt securities: classify as portfoplio investment; iii) investment in deposits: classify as other investment

Annex II. Summary of Arguments For and Against Each Option

OPTIONS FOR RECORDING NONREFUNDABLE CONTRIBUTIONS UNDER CBI PROGRAMS

<table>
<tr><th colspan="3">Annex Table. Options for Recording Nonrefundable Contributions Under CBI Programs</th></tr>
<tr><td>Option 1: The Case for Taxes
The argument for classifying as taxes takes the viewpoint of the country offering a CBI program.</td><td>Option 2: The Case for Services
The argument for classifying as services takes the viewpoint of the person acquiring a CBI.</td><td>Option 3: The Case for Transfers
The argument for classifying as transfers is that Option 1 and 2 are methodologically problematic.</td></tr>
<tr><td>For government, nonrefundable contributions are a means of raising revenue.
The payments are out of proportion to the cost.
When the citizenship is automatically granted upon payment with little work, these are simply a device to raise taxes.
(SNA 2008, paragraph 8.54; GFSM 2014, paragraphs 5.73 and 5.138; and BPM6, paragraphs 12.30 and 10.180–10.181)

As to the type of tax:
Either capital taxes, given their infrequent or one-off nature.
Alternatively, current taxes given that capital taxes are on the value of assets, or net worth, owned by a unit or on the value of assets transferred; neither of which appears to be the case for nonrefundable CBI payments.</td><td>For this person, these nonrefundable contributions can be viewed as neither compulsory nor unrequited (the principal features of taxes) but instead as a means to acquire something of value.
Since non-resident non-citizens are able to exercise meaningful choice and ‘shop around’ when buying secondary citizenship, they clearly decide to buy something of value because otherwise this person would not enter a CBI arrangement.
The value of citizenship to an individual is difficult to measure as it includes not only the direct services provided by the adopted country to the individual but also many indirect benefits (such as ease of travel) not only for the individual but their current and future family.</td><td>Nonrefundable contributions are neither compulsory nor fully requited. Non-compulsory, unrequited payments are recorded as transfers.

As to the type of transfer:
Given the policy objective of these programs are to improve the country’s welfare, the contributions could be recognized as capital transfers in the form of “exceptional large donations”.[15]
If the CBI programs are public revenue generators, these payments are not exceptional but are instead other current transfers.</td></tr>
<tr><td>The argument against classification as a tax:</td><td>The argument against classification as a service:</td><td>The argument against classification as a transfer:</td></tr>
<tr><td>It is not compulsory—those participating in the scheme are not compelled to do so, as other options to acquire citizenship exist (such as living in the country for a</td><td>The contributions are too large to be payments for services (i.e., the payment amount far exceeds the cost of providing the service), so what is returned in value is not commensurate.</td><td>It is not unrequited—participants gain something of value to them (i.e., citizenship).</td></tr>
</table>

[15] *GFSM 2014* (paragraph 5.148) “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, …” While these contributions have some of the same characteristics as those of investment grants (*BPM6*, paragraph 13.25), such investment grants are only provided by governments or international organizations.

Annex Table. Options for Recording Nonrefundable Contributions Under CBI Programs		
Option 1: The Case for Taxes The argument for classifying as taxes takes the viewpoint of the country offering a CBI program.	**Option 2: The Case for Services** The argument for classifying as services takes the viewpoint of the person acquiring a CBI.	**Option 3: The Case for Transfers** The argument for classifying as transfers is that Option 1 and 2 are methodologically problematic.
period). They could also apply for citizenship to another country. • It is not unrequited—participants gain something of value to them (i.e., citizenship). • It is questionable whether non-residents can enter voluntarily into a tax obligation.		

Annex III. Summary of User Consultation With the IMF Departments

RECORDING OF NONREFUNDABLE CONTRIBUTIONS TO CITIZENSHIP BY INVESTMENT PROGRAMS (CBI): SUMMARY OF CONSULTATION OF FUND DEPARTMENTS[16]

With a view to pursue the consultation from a user perspective, IMF Departments were asked for information on relevant country schemes on CBI programs including the current treatment of CBI contributions, and the importance of new guidance in this area. In addition, their views were also sought on how the proposed treatment might impact macroeconomic analysis and fiscal policy formulation. A summary of the detailed consultation is provided in Appendix I.

- **The contributions are macro-critical for some economies in the Caribbean**. To underline the importance of the statistical treatment of nonrefundable CBI contributions for macroeconomic analysis and policy formulation, respondents explained that annual CBI revenues in some Caribbean countries could amount to as much as 20 percent of GDP (as in the case of St. Kitts) with smaller but still significant amounts of revenue being recorded in other countries (such as Grenada, Antigua, and Dominica).
- **There was unanimous agreement that clear guidance on this topic was important and that recording nonrefundable contributions under CBI programs as taxes was not appropriate.** On this latter point, respondents agreed with the analysis in the guidance note that the CBI contributions could not be seen as compulsory (and so not taxes), pointing out that those seeking new citizenship can achieve this aim through other channels, such as through investment, purchase of real estate and establishment of a business.
  - The possible impact of tax treatment would have on the public finances, in terms of skewing the analysis of tax revenue potential and capacity was emphasized.
  - It is also considered that their treatment as taxes would provide a wrong signal as to the need to increase the efficiency of the tax system, and so potentially delay needed tax reforms placing the public finances at increased risk to external shocks.
- **"One size fits all" approach may not be appropriate for classifying the nonrefundable CBI contributions, even though there was unanimous agreement as non-tax revenue**. There was no consensus on what type of non-tax revenue it should be (i.e., current/capital transfer or services). Arguments were put forward for treatment as capital transfers (in those cases where the payment will be used to fund capital investment), and as sales of services (based on the logic that the transaction should recognize the total cost of the future services rendered to the new citizen). Overall, it is considered that the contributions could be recorded as whichever type of non-tax revenue is most appropriate, depending on the details of the CBI program and the intended uses of the contributions (rather than following a single classification in all the instances).

[16] IMF Departments were consulted in May 2022 for seeking their feedback on the proposed guidance on the treatment of nonrefundable under CBI programs.

Annex IV. Supplementary Information

REFERENCED DOCUMENTS

Business Insider, "Countries where you can buy citizenship residency or passport" December 27, 2018. Downloaded March 20, 2021. https://www.businessinsider.com/countries-where-you-can-buy-citizenship-residency-or-passport-2018-9#15-moldova-citizenship-from-146300-169292-or-130798-9%20).

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Gold, Judith, and El-Ahsram. "Passport of Convenience" Finance & Development, pp 48–51. December 2015, International Monetary Fund, Washington, DC.

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Annex V. List of BPM 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.