B.8 Recording Citizenship-by-Investment Programs: Outcome of the GFS Consultation

This note summarizes the outcome of a consultation of the GFS community on the Guidance Note B.8 Recording Citizenship-by-Investment Programs, a guidance note prepared as part of the update to the Balance of Payments and International Investment Position Manual and the System of National Accounts. The consultation concluded on August 25, 2021.

Consultation Responses

1. **The majority of the respondents[1] to the government finance statistics (GFS) consultation favored a tax recording for large nonrefundable payments made to government under a Citizenship-by-Investment (CBI) program.** Just under three-fifths of those respondents who provided an opinion preferred to record the nonrefundable payments as a tax (i.e., Option 1). Those respondents who favored a tax recording mainly cited as a rationale that the nonrefundable payment to government is out of all proportion to the cost to government of providing the passport and citizenship.

2. **A significant minority of respondents (just over one third) favored a non-tax recording for the large nonrefundable payments to government (i.e., Options 2, 3a, or 3b).** Those respondents who favored a non-tax recording typically cited as a rationale that the payments could not be considered compulsory in nature and as such did not meet the definition of a tax. Over two-thirds of respondents who favored a non-tax recording thought that recording the payments as a transfer to government was the most appropriate, either in full (Option 3a) or with the administrative costs of providing citizenship separately recorded as a sale of service (Option 3b). The remaining respondents who favored a non-tax recording argued that the payment for citizenship could not be considered unrequited because the benefit from acquiring citizenship and costs for providing citizenship go well beyond a citizenship paper, and as such the payments to government should be recorded as sales of service (i.e., Option 2).

3. **It is noteworthy that the four of the five respondents who reported the existence in their countries of CBI schemes with large nonrefundable contributions to government are currently recording these contributions in government finance statistics as non-tax revenue, with the fifth respondent uncertain of the current treatment.** The respondents were from the Caribbean and Pacific island regions. All five respondents argued that the payments were not compulsory and so not taxes. Some of the five respondents also emphasized that the governments have no jurisdiction over the non-residents purchasing citizenship, who are not required to reside in the country, and that the citizenship received by the applicant has considerable value not only for the individual throughout their life, but also "their unborn children, grandchildren, etc.".

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[1] The GFS consultation received 40 responses with 33 of those providing an opinion on the preferred recording of nonrefundable payments under CBI schemes, which are used for the subsequent analysis. There was a good geographic spread of responses with slightly under half the responses being from European and North American countries (or international organizations) and the rest being from the other regions of the world. The Annex provides more detail on the consultation responses.

4. **Two respondents felt that it was inappropriate to adopt a single recording for all CBI programs and argued for a case-by-case assessment of the payments.** It was suggested by one respondent that a decision tree could be developed to guide statistical compilers on how best to record nonrefundable contributions made under CBI programs.

5. **There was no consensus under which tax category CBI payments should be recorded, should a decision be taken to treat the nonrefundable payments to government under CBI programs as taxes.** Respondents offered a number of different suggestions as to the most appropriate tax category. The category which received the most support from respondents was the residual tax category, "1162 Other Taxes: Payable by other than business or unidentifiable", followed by "1145 Taxes on use of goods and on permission to use goods or perform activities".

6. **Similarly, there was no consensus as to whether CBI payments should be treated as current transfers or capital transfers.** Respondents were evenly split as to whether a current or capital recording was most appropriate, in the event that a decision is taken to treat the nonrefundable payments to government under CBI programs as transfers not elsewhere classified.

Further Points for Consideration

7. **In addition to consulting the members and observers of the Government Finance Statistics Advisory Committee (GFSAC) and the wider GFS community, staff members in the IMF Statistics Department's Government Finance Division (STAGO) were also consulted.** In total 12 responses were received and, as with the wider GFS consultation, they encompassed a range of views. However, by contrast to the wider consultation, in the STAGO consultation there was majority support for a non-tax recording (approximately two-thirds) over a tax recording (approximately one-quarter), with one respondent favoring a case-by-case assessment. However, similarly to the other consultation, respondents were split as whether to treat the transfers as current or capital, and no clear preference emerged as to the most appropriate tax category.

8. **A further point to consider prior to finalizing any specific guidance on nonrefundable payments to government under CBI schemes, is the implication for key macroeconomic metrics when adopting a specific approach.** As all options under consideration treat the nonrefundable payments as government revenue, the main fiscal impact from the different options stems from whether the revenue is considered tax revenue or non-tax revenue. If it is treated as tax revenue, this would increase the country's tax burden (total tax as percentage of GDP), a key fiscal metric.

9. **Although not discussed in the guidance note, some of the consultation respondents also discussed visa schemes in their countries or extending the guidance on nonrefundable payments under CBI schemes to visa/passport fees.** Some respondents favored treating all visa, passport and citizenship fees (that are well in excess of administrative costs) similarly. However, other respondents (typically those respondents who were in favor of a non-tax recording for nonrefundable payments under CBI schemes) highlighted substantive differences between CBI schemes and long-term residency visas.

Concluding remarks

a. although a majority of respondents to the GFSAC and GFS community consultation (approximately 60 percent) favor recording nonrefundable payments as taxes, there is a significant diversity of views which prevents reaching a firm conclusion on the most appropriate treatment.
b. those respondents who cited cases in their countries of CBI schemes with large nonrefundable payments all favored treatment of these contributions to government as non-tax revenue, although there were some differences in exactly what type of non-tax revenue should be recorded. Many of these countries' IMF Article IV Consultation staff reports also recorded the receipts under the CBI schemes as non-tax revenues. In this context, further consultation with concerned country teams seems appropriate.
c. there is little consensus from respondents on either what type of tax should be recorded (if a tax treatment is followed) or what type of transfer should recorded (if a transfer treatment is followed).

Annex: Summary of detailed consultation responses[2]

Total number of responses	33
Of which: from GFSAC members/observers*	7
Of which: from WHD countries/organizations	8
Of which: from EUR countries/organizations*	8
Of which: from MCD countries/organizations	2
Of which: from APD countries/organizations	4
Of which: from AFR countries/organizations	4

* Eurostat provided a response as a GFSAC observer, based on their own survey of EU member countries. Some EU countries also responded directly to the IMF consultation and their individual responses are included under EUR countries and have been separately recorded.

1. Is there a CBI scheme operating in your country/territory, where large nonrefundable contributions are made to government in order to secure citizenship?

a. If Yes, how are these revenues treated in your Government Finance Statistics? If known, please explain the rationale for this treatment.

b. If Yes, is the same treatment followed in the National Accounts and External Sector Statistics of your country/territory? If a different treatment is followed, then please explain why.

Five respondents identified schemes in their countries/regions which appear to meet the definition of a CBI given in the guidance note, of a program which allows "*individuals to obtain an additional citizenship or passport by making economic contributions to another country".* Four respondents indicated a current recording of the government revenue in government finance statistics as non-tax revenue, with the fifth respondent uncertain of their current treatment. Three respondents indicated that the same recording was followed in government finance statistics, national accounts, and external sector statistics. However, one respondent explained that while both the national accounts and government finance statistics in their country treated the CBI payments as non-tax revenue for government, the same payments were partitioned in the external sector statistics between current taxes and payments for services.

2. Which of the options considered in the guidance note do you believe best captures the nature of the nonrefundable contributions made under CBI programs? Please explain why.

Option 1 Taxes
Option 2 Sales/Purchases of Services
Option 3a Transfers not elsewhere classified (current or capital)
Option 3b Partitioning payment between Option 2 and Option 3a

[2] The analysis of responses is limited to those responses where the respondent provided an opinion on their preferred recording for the nonrefundable payments to government under CBI schemes.

Option 1 : Taxes	19
Non-tax revenue, of which:	12
Option 2 : Sales/Purchases of Services	*3*
Option 3a : Transfers not elsewhere classified (current or capital)	*7*
Option 3b : Partitioning between options 2 and 3a	*2*
Other	2

3. In the event of Option 1 being chosen, what GFSM 2014 tax category would you include the nonrefundable contributions under? If you consider none are appropriate, do you think inclusion of a new tax category should be considered?

111 Taxes on income, profits, and capital gains	1
113 Taxes on property	1
114 Taxes on goods and services (most commonly 1145 Taxes on use of goods and on permission to use goods or perform activities)	5
115 Taxes on international trade and transactions	0
116 Other taxes	8
New tax category	3
Other response based on SNA tax categories and not GFSM 2014 classifications (e.g., D.59, D.91)	2
No response	13

4. In the event of Options 3a or 3b being chosen, do you think that the transfers should be treated as current or capital transfers? Please explain why.

1441 Current transfers not elsewhere classified	9
1442 Capital transfers not elsewhere classified	8
No response	16