Citizenship/Residence by Investment and Digital Nomad Visas: The Golden Era of Individual Tax Evasion and Avoidance?

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Citizenship/Residence by Investment and Digital Nomad Visas: The Golden Era of Individual Tax Evasion and Avoidance?

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In recent decades, increased mobility of capital and labor improved individuals' opportunities to avoid or evade tax. This chapter explores two programs commonly provided by tax havens that facilitate individuals in dodging taxation in their home country. We first focus on longer-existing initiatives targeting wealthy individuals by offering citizenship and residence-by-investment (CBI/RBI) programs and discuss how they allow individuals to evade taxes. We then delve into the recently launched digital nomad visa (DNV) programs, which grant individuals temporary residence in a country while working exclusively remotely. We provide a comprehensive overview of the key features of existing programs based on a novel, hand-collected dataset. Currently, more than 40 countries offer a DNV program, and half of them are tax havens. Although DNV programs mainly create concerns about tax avoidance, they can also provide tax evasion opportunities similar to those documented in the literature for CBI and RBI programs.

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JEL: H26, G21, F42

I. INTRODUCTION

For decades, increased mobility of capital has allowed individuals to invest their wealth on a global scale. Many countries have exerted great efforts to attract capital, especially from high-net-worth individuals. Noticeable are some small island states that tax personal and capital income at very low or zero rates, a feature that has led to their classification as tax havens. According to Zucman (2013), about 8 percent of total household financial wealth is held offshore in tax havens. The bulk of offshore financial wealth can be attributed to the very richest households, and a substantial share of the assets or the related income is undeclared to tax authorities resulting in significant tax evasion (Alstadsaeter, Johannesen, and Zucman 2019).

In an effort to curb international tax evasion by individuals, governments have implemented policies to ensure relevant information about taxpayers is shared with tax authorities. Among these policies are unilateral actions such as bilateral agreements on tax information exchange on request, voluntary disclosure amnesty programs, and the Foreign Account Tax Compliance Act (FATCA) of the U.S., but also coordinated actions put forward by the EU and the OECD such as the EU Tax and Savings Directive and the Common Reporting Standard (CRS). Despite these initiatives, tax evasion is still a major concern because individuals regularly find, seemingly effortless, new ways to prevent their home country from obtaining relevant information to tax their hidden wealth.[1]

The first part of this chapter evaluates a new development in the realm of international taxation of capital and focuses on the hitherto rather understudied strategy of disguising true tax residency to evade taxation in the home country. A couple of countries offer so-called “golden passports” or “golden visas” that allow foreigners to obtain citizenship or respectively

[1] For more details on how effective agreements on information exchange have been to reduce tax evasion, see Chapter 11 and 17.

residence in exchange for substantial financial investment in or donations to the host country. We first provide some descriptive information on both citizenship-by-investment (CBI) and residence-by-investment (RBI) programs and highlight their similarities, but also some differences.

In addition, we discuss the potential concerns these programs raise when it comes to individuals' ability to evade capital income taxes. Although individuals can be genuinely interested in CBI/RBI programs for non-tax reasons such as education access for their children, a better lifestyle, or higher security, tax reasons are an important dimension of individuals' decision to participate in these programs.[2] Against the background that tax havens are prominent advocates of CBI/RBI programs, issues with respect to tax evasion arise because the availability of multiple citizenship or residence rights allows individuals to use their alternative passport or residence certificate to open, for example, a new bank account. To evaluate the effectiveness of this tax evasion strategy, we review the sparse literature that has so far analyzed CBI/RBI programs in the context of tax evasion. Ultimately, the conclusion is that CBI/RBI programs are quite effective as they allow individuals to escape the reporting duty under the automatic exchange of information standards. This is even the case after the EU enforced disclosure requirements on financial intermediaries and legal advisors, i.e., third-party reporting, on aggressive tax planning schemes used by their clients. The apparent ease with which wealthy individuals can obtain a golden passport or a golden visa raises the question of whether tax havens' advocacy of CBI and RBI programs is, in a way, the proclamation of a new –golden – era of individual income tax evasion.

The second part of this chapter evaluates a new development in the realm of international taxation of labor income driven by the recent boost in remote work. Remote work, also known

[2] For more details, see OECD (2018), page 58.

as telework or telecommuting, is an arrangement that provides employees with the flexibility to execute projects and tasks from possibly any location instead of commuting to a central workspace such as an office. It is not a new phenomenon,[3] but it was not until the Covid-19 pandemic that remote work also became a fundamental part of traditional job holders' work routines. For example, the share of U.S. employees that worked remotely half-time or more – while steadily increasing – only rose from 2.3 percent in 1980 to 5.7 percent in 2019 (Agrawal and Stark 2022). Yet, at the peak of the pandemic, about 7 in 10 employees worked remotely (Owl Labs 2020). Although the stark increase is largely a consequence of lockdowns and social distancing policies, remote work seems to become a permanent fixture.[4]

Employment arrangements that allow for remote work typically differ in the degree of flexibility. Some arrangements allow employees to work remotely only a couple of days per month or week, whereas others permit fully remote employment. Individuals that aspire toward this extreme form of remote work are typically highly educated (McKinsey 2020; Agrawal and Stark 2022) and very mobile (Machin, Pelkonen, and Salvanes 2012; Malamud and Wozniak 2012) and frequently referred to as digital nomads. Digital nomads embrace a location-independent, technology-enabled lifestyle meaning that they can combine travel and work as long as they are able to connect to the internet. Thus, they have the opportunity of moving to and working from one or several countries.[5]

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[3] See, for example, Gajendran and Harrison (2007) for a meta-study of the benefits and drawbacks of remote work.
[4] Based on Owl Labs (2022) "State of Remote Work Report," 2 in 3 employees would immediately start searching for a new job if the employer ceased to offer the opportunity of remote work, while about 4 in 10 responded they would quit the job. See also Barrero, Bloom, and Davis (2021), who find that U.S. workers' supply of full workdays from home is four times higher in the post-pandemic period.
[5] While the number of digital nomads increases at a fast pace, the composition also reveals fundamental changes. For example, in the U.S., 7.3 million workers described themselves as digital nomads in 2019. This figure rose to 16.9 million in 2022 and, therefore, more than doubled within just three years. At the same time, the composition shifted toward people with traditional jobs and away from independent workers such as freelancers, independent contractors, and the self-employed who previously dominated the group of digital nomads. While 4 in 9 digital nomads were traditional workers in 2019, by now, almost 2 in 3 belong to this group. Interestingly, the lion's share in the rise of digital nomads can be attributed to the increase of traditional workers becoming digital nomads (MBO Partners, 2022).

However, there are legal issues concerning working as a digital nomad. In the past, it was common practice for digital nomads to enter a country on a tourist visa. But, working abroad on a tourist visa is, at least technically, illegal (Hall, Sigala, Rentschler, and Boyle 2019; Business Insider 2023). This legal uncertainty has led many countries to implement specific policies that clarify the legal status of digital nomads, so-called "digital nomad programs." To date, around 40 countries have introduced digital nomad visas (DNV), and more countries are either on the brink of implementing or plan to institute one.

The rise of remote working poses challenges toward how to tax labor income. In a world where individuals work remotely, they are disconnected from the jurisdiction where they are formally employed or where their clients reside. However, jurisdictions' taxing rights are still bound by geographical boundaries.[6] Thus, in an international context, remote work can mean that individuals are free to choose their country of tax residence, a mode of mobility facilitated by acquiring a residency status under DNV programs. A prominent example is individuals on social media platforms, such as influencers and social media content producers. This is a growing industry, and recent statistics from Forbes suggest that more than 50 million people describe their job as "influencer" with an estimated total market value of the industry exceeding 100 billion USD.[7] Around the world, prosecutors bring before court a rising number of cases against influencers related to their potentially undeclared income from social media activities. For example, in Spain, several of the most popular YouTubers moved their residency to Andorra to avoid high tax payments due in Spain.[8] The Spanish tax authorities are aware that

[6] See Agrawal and Stark (2022) for an analysis of U.S. state-level fiscal consequences of digital work arrangements and Agrawal and Bruckner (2022) for an analysis of how tax principles affect wages and employment in the presence of remote work.

[7] See https://www.forbes.com/sites/theyec/2022/07/08/the-rise-of-the-influencer-predictions-for-ways-theyll-change-the-world/

[8] See https://www.reuters.com/article/us-spain-tax-andorra-idUSKBN2A13EE

many of these residence status changes may be fake[9] and initiated investigations against digital nomads with a potentially fake non-resident tax status.[10] While Andorra has yet to implement its DNV program, it is just one example of a country that is attractive because of its favorable fiscal environment of which individuals are more and more able to take advantage.

Due to their recent emergence, there is so far no comprehensive database available on DNVs. In this chapter, we present a novel, hand-collected dataset on DNV programs and provide descriptive information similar to the one we gather for CBI/RBI programs. We highlight that most countries offering DNV programs are well-known tax havens and elaborate to which extent DNV programs are old wine in new bottles for tax havens. We conclude by discussing how tax systems need to adjust to this new phenomenon.

II. CITIZENSHIP AND RESIDENCE BY INVESTMENT PROGRAMS

Overview

Citizenship refers to the connection between an individual and the state, encompassing the entitlements and responsibilities that arise from a person's membership in the political community. There are six common ways to obtain citizenship: i) by birth (ius soli), ii) by family (ius sanguinis), iii) by marriage (ius matrimonii), iv) by naturalization, v) by honorary conferment, or vi) by investment (ius doni). In many countries, obtaining citizenship requires certain criteria to be met, including language proficiency, knowledge of the country, connections through family members, or an extended period of residency. Yet, some countries offer fast-track access to citizenship in exchange for a substantial financial investment in the

[9] According to a survey among 900 Spanish tax advisors, more than half of the respondents believe the changes in the residence status mainly happens on paper without a physical move. For more details, see https://www.thelocal.es/20210615/more-than-half-of-tax-address-changes-in-spain-are-fake-survey.

[10] https://www.travelinglifestyle.net/spain-to-step-up-their-control-on-digital-nomads-with-fake-non-resident-tax-status/

economy, frequently referred to as citizenships-by-investment (CBI) programs or golden passports.

The launch of CBI programs dates back to the 1980s. Early adopters include, for example, St. Kitts and Nevis, Austria, Ireland, Belize, and Tonga. The number of CBI programs increased over the years, counting as many as 12 in 2018 (Langenmayr and Zyska 2023).[11] The amount and type of investments which would grant citizenship rights varies across countries.[12] For example, Dominica, Santa Lucia, St. Kitts, and Nevis, Grenada, Antigua, and Barbuda, and Montenegro allow for either a donation (including taxes) or an investment in real estate ranging from USD 100,000 to 250,000, while countries like Turkey request a real-estate investment of at least USD 400,000 and Malta requests a donation of at least USD 600.000. It takes, on average, 3-4 months to obtain citizenship rights.[13]

A similar but more popular program is the residence-by-investment (RBI) program, also known as golden visa. For example, as of 2017, half of the European Union member states offered an RBI program.[14] Under such programs, a long-term residence permit is granted in exchange for a substantial donation or an investment in real estate where the amount and types of investment are similar to those for CBI programs. The cost of obtaining a residence permit in Spain can range from EUR 500,000 to 2,000,000, while in the neighboring country Portugal they range from EUR 250,000 to 1,5000,000.[15] Like citizenship rights, residence rights can be obtained within a few months after the application.

[11] Table 1 in Langenmayr and Zyska (2023) offers an overview of the key characteristics of each program. An earlier overview of such programs is provided by Christians (2017a).
[12] An overview of current programs is available at https://globalresidenceindex.com/citizenship-by-investment/
[13] The overall length of the process varies across countries with the shortest in Vanuatu (1-2 months) and the lengthiest in Malta (12-36 months), see https://globalresidenceindex.com/citizenship-by-investment/
[14] For an overview of RBI programs within the EU, see Surak (2022). See Christians (2017), for an overview of residence-by-investment programs around the world.
[15] For more information, see https://globalresidenceindex.com/golden-visa-residence-investment/

In general, CBI and RBI programs grant access to a country's educational or health system, visa-free work and travel, as well as the facilitation of local business activity.[16] They are usually granted for at least a few years, but some countries do not revoke them or allow for renewal. For example, under the Mauritius RBI program, residency lasts for 10 years and is renewable thereafter.[17]

Although there are very often legitimate reasons for individuals to participate in a CBI/RBI program, they may be misused to illegally hide financial assets offshore by escaping reporting under the OECD CRS for automatic exchange of information on financial institutions. The reason is that individuals may claim to be residents for tax purposes only in the jurisdiction offering the CBI/RBI program and not disclose other jurisdictions of tax residence to the financial institution, which they would be obliged to if they were, for example, not physically living in the CBI/RBI country.

Tax Havens and Citizenship/Residence by Investment Programs: Empirical Evidence

Because the combination of a low tax burden and a lenient threshold for physical presence provide great opportunities for misuse, the OECD published a list in 2018 of 14 countries offering so-called "risky" CBI/RBI programs that give access to exactly those benefits. For example, in the EU, both the Maltese and the Cypriot programs were labeled as risky programs, and the EU Commission requested both countries to revise or remove their schema. It is, therefore, not surprising to find many of the well-known tax havens in the list of countries offering a risky CBI/RBI program.

[16] Survey evidence suggests that the key reasons for entering CBI/RBI programs are better visa conditions to travel across countries and access to a better lifestyle, security, and career opportunities. For details, see the OECD compilation of comments document on the misuse of residence by investment schemes to circumvent the Common Reporting Standard (p. 58) available at: https://www.oecd.org/tax/exchange-of-tax-information/public-input-received-misuse-of-residence-by-investment-schemes-to-circumvent-the-common-reporting-standard.pdf

[17] See, e.g., https://www.henleyglobal.com/residence-investment/mauritius.

Anecdotal evidence suggests that identity cards and similar documentation obtained under CBI/RBI programs have been misused to escape the reporting duty under the CRS (Christians 2017a; European Parliament 2018; Mehboob 2019). A few empirical studies investigate the use of CBI/RBI programs for tax evasion in more detail. We compare and discuss their findings in the following.

The first study by Ahrens, Hakelberg, and Rixen (2022) finds only limited evidence that these schemes are used to hide wealth from taxation. The study evaluates whether CBI and RBI programs are used to escape the automatic exchange of information under the CRS. The authors rely on two datasets, cross-border portfolio investments data from the Consolidated Portfolio Investment Survey and cross-border non-bank loans and deposits data provided by the Bank for International Settlements (BIS). Both datasets have been used in the previous literature that examined reactions to exchange of information agreements.[18] Ahrens, Hakelberg, and Rixen (2022) use a sample period ranging from 2009-2018 and consider as treatment the announcement of the CRS in 2014. Treated jurisdictions are countries that offer a CBI or RBI program and provide a tax-favorable environment as measured by the tax risk indicator compiled by the Tax Justice Network's Financial Secrecy Index.[19] They find in a difference-in-difference analysis that foreign portfolio investments from treated jurisdictions increase in reaction to the CRS announcement relative to non-treated jurisdictions, which is suggestive of increased use of CBI and RBI programs to circumvent tax information exchange. In split tests, they show that the effect is driven by EU currency markets. They do not find confirming results in the cross-border deposit data by the BIS. However, using the same data BIS data on cross-border deposits, Langenmayr and Zyska (2023) show that cross-border deposits held in tax

[18] See, e.g., Heckemeyer and Hemmerich (2020) for applications of the foreign portfolio investment data and, e.g., Huizinga and Nicodème (2004), Johannesen and Zucman (2014), Menkhoff and Miethe (2019) and Casi, Stage and Spengel (2020) for applications of the cross-border loans and deposits data.
[19] See https://fsi.taxjustice.net/.

havens from CBI countries increase between 42–63 percent after the introduction or reform of CBI tax schemes, which supports the hypothesis that these programs are used to evade taxation of income and wealth.

At first, the difference in findings between Langenmayr and Zyska (2023) and Ahrens, Hakelberg, and Rixen (2022) seems surprising, given that both studies are based on the same cross-border deposit data by the BIS. Yet, there exist fundamental differences in sample selection, definition of treatment group, and treatment date, which can explain the differences in findings. Langenmayr and Zyska (2023) point out that in contrast to Ahrens, Hakelberg, and Rixen (2022), their sample includes deposits in 10 and not only 2 tax havens. Furthermore, Ahrens, Hakelberg, and Rixen (2022) have a differently constructed treatment group of 43 countries offering tax shelters, while Langenmayr and Zyska (2023) only classify 6 countries as CBI treated. Indeed, they only find an effect for CBI-adopting countries and not for RBI-adopting countries. Lastly, while Ahrens, Hakelberg, and Rixen (2022) consider as treated period, the period after the commitment by most countries to adopt automatic exchange of information in 2014, Langenmayr and Zyska (2023) also consider the introductions of or substantial changes in CBI programs as treatment points and define CRS treatment as the date at which the CRS became effective in most countries, the beginning of 2016, or country-specific effectiveness dates following Casi, Stage and Spengel (2020).

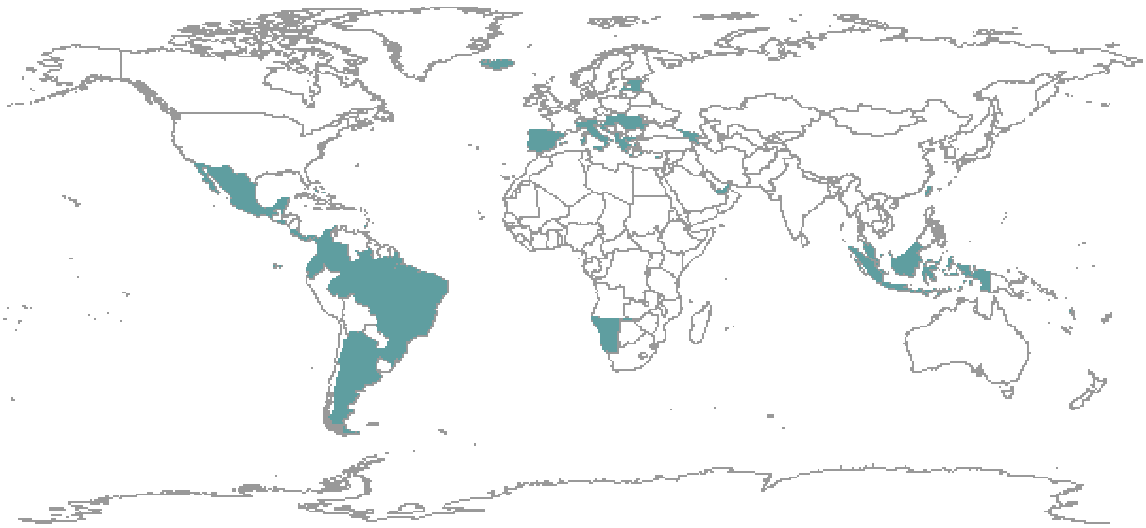
Casi, Mardan, and Muddasani (2022) is the third empirical investigation that evaluates the effects of CBI/RBI countries on cross-border deposit changes in the BIS data. They show that cross-border deposits in non-EU countries held by CBI/RBI countries sharply increased after the introduction of EU-specific mandatory intermediary tax-scheme disclosure rules in 2018 (under European Council (2018/822/EU), also known as DAC 6) when compared to deposits held by non-CBI/RBI countries. Their finding provides evidence that CBI/RBI schemes are still attractive to circumvent tax transparency initiatives despite the EU's initiative to counter tax evasion through third-party reporting.

III. DIGITAL NOMAD VISAS

Overview

A digital nomad visa (DNV) grants a temporary residence permit to live in a country and work exclusively remotely. The latter is the distinctive feature of this program because the recipient of the visa is typically not allowed to conduct major business activities or earn most of her income locally. Generally, the recipient works either for a non-resident company or as a freelancer with predominantly non-resident clients.

Figure 1: Country Overview of Digital Nomad Visa



Notes: Figure 1 represents the world map and highlights the countries with a DNV in place as of May 2023. Information is taken from the government's website. Alternative sources include mainly the CitizenRemote, VisaGuide, and SchengenVisaInfo websites. We use multiple sources for the same country to ensure accuracy.

DNVs are a very recent phenomenon, and a comprehensive database with information about relevant features of such programs does not exist yet. Thus, we hand-collected information on 100 countries to verify if they have introduced a DNV program. Currently, 46 countries have introduced a DNV program.[20] DNV programs have appeared basically in every corner of the world as can be seen from figure 1, which highlights the countries with a DNV in place as of May 2023.

DNV programs differ in many dimensions, such as the application procedure, the application fee, the requirements for eligibility, and the benefits provided to the recipient of the visa. Most countries have established a dedicated website offering a fully digital application process, but some countries handle the application through the embassy or the consulate. Documentation requirements typically include a passport, health certificate, evidence of employment, proof of accommodation, income declaration, and a clean criminal record. However, the latter is not always a requirement. The duration of the program is often one year, but it can vary from 3-6 months to 5 years, with some countries allowing for an extension or renewal.

DNV programs typically target higher-middle-income and richer individuals. While the cost for applying to a DNV program mostly lies around USD 200, the fee can be as high as USD 2,800. In addition, proof of income is usually required because DNV programs frequently impose an income threshold that depends on the local cost of living, below which an individual will not be eligible for the visa. For example, the requirement is a monthly income between USD 2,500 and USD 9,000 in Eastern or Southern EU countries. However, some countries do not impose any income threshold, while others require an annual income of USD 100,000 or above. In addition, the visa is typically granted exclusively to the applicant and only, in certain cases, extends to family members.

When comparing DNVs to the longer existing CBI/RBI programs, they both aim at attracting highly mobile individuals. Yet, their objectives and benefits differ substantially. While DNVs

[20] Some countries have programs that are similar to the DNV like the Czech Republic, Germany and Norway which offer a free-lancer visa for several years. Other countries, like New Zealand, have a visa program that facilitates remote working by offering a so-called visitor visa which eases entrance into the country. This section focuses exclusively on DNV.

are attractive for individuals who want to physically move to another country, CBI and RBI programs can also be accessed by individuals that have no interest in living in the respective country. The presence requirement in the country can be as low as zero or a few days in a year. Moreover, CBI/RBI programs are limited to individuals at the very top of the wealth distribution and are, therefore only relevant to a small subset of digital nomads because they regularly require substantial financial investment in or donations to the country.

Finally, the tax residency differs between the programs. A DNV does typically not trigger taxation of income unless an individual stays longer than half a year in the country. The only taxes faced by a short-term digital nomad are, therefore, typically sales or value-added taxes. However, in most countries, any residence which extends beyond half a year can also trigger tax residence and thus full income tax liability on worldwide income. Under a CBI/RBI program tax treatment depends on the specificities of these programs and can imply taxation in the CBI/RBI country. The taxing right on worldwide income is regularly based on the tax residence of the individual.[21] Therefore, individuals that physically move to a CBI/RBI country are regularly subject to tax on their worldwide income there. Table 1 summarizes the main differences between CBI/RBI programs and DNVs.

Table 1: Conceptual comparison of Citizenship-by-Investment/Residency-by-investment (CBI/RBI) Visas and Digital Nomad Visas (DNV)

	CBI/RBI	DNV
Program objective/benefit	Granting citizenship/ residency rights: e.g., work allowance, access to visa-free travel, access to	Allowing residence in a country on the condition that work is conducted remotely *outside* the visa-issuing country

[21] The definition of limited and unlimited tax liability varies across countries and bilateral tax treaties set a common definition to avoid double taxation. Typically, individuals are taxed on their worldwide (unlimited taxation) income in the country where they are resident. Other definitions include those based on citizenship (which is the case in the United States and Eritrea) or domicile (as in the UK). Some countries only tax income generated within its territory (limited taxation), e.g., Panama and Costa Rica. As most countries apply residence-based taxation of world-wide income, we focus on this case.

	the health system, education, etc.	
Program duration	A few years to unlimited/lifetime duration	Less than one year to 2 years
Costs for visa applicant	Often require substantial investments ranging from a few hundred thousand to millions of US dollars	Administration fees and proof of sufficient funding (usually requires proof of income of about USD 3,000 or similar per month)
Physical presence in issuing country required	Depends on the program: Physical presence is not always required.	Yes
Taxation of worldwide income	Depends on the program or the actual residence/ physical location of the individual.	Regularly no income taxation, except if the duration of stay exceeds half a year, treatment depends on the program in place.

Notes: Information on CBI/RBI visa programs is from Christians 2017a. Information on digital nomad visas is self-collected by the authors of this article; for more details see note to Figure 1.

Tax Havens and Digital Nomad Visas: Tax Avoidance and Evasion Opportunities

To the extent that the rise of DNV programs likely increases the mobility of individuals by offering the opportunity to work remotely in a foreign country, the question arises of how the current system of taxing labor income is affected. The empirical literature on taxation and mobility has highlighted that high-income earners react sensitively to taxation by changing residence.[22] High mobility of individuals increases competition between governments over these individuals and results in a shift of the tax burden from the higher end of the income distribution toward the middle and lower parts (Egger, Nigai, and Strecker 2019). Yet, there is only little systematic evidence on how digital nomadism will affect the taxation of individuals.

[22] See, for example, Agrawal and Foremny (2019 Akcigit, Baslandze, Stantcheva (2016) and Kleven, Landais, and Saez (2013) as well as Kleven, Landais, Muñoz, and Stantcheva (2020) for a review of the literature.

There is reason to believe that taxation will matter for the choice of where individuals work. Agrawal and Tester (2022) show that professional golfers organize their events to reduce tax payments on their foreign state-earned income because in the U.S., earnings are sourced to the place of employment if the home-state tax rate is lower than the tax rate in the state of work. Digital nomadism likely increases the response of employment location to taxation because workers no longer need to physically move to the place of employment, at least for occupations that do not require physical presence. Thus, even limited increases in remote work due to digitalization could lead to substantial revenue losses in countries that rely heavily on personal income tax for revenue generation. De la Feria and Maffini (2021) estimate that – despite abstracting from spill-over effects to the corporate income tax and VAT – the revenue loss due to increased cross-border mobility of digital work could amount to up to £32.5 billion in the UK. Recent global estimates from the International Monetary Fund point to a reallocation of around USD 40 billion annually for personal income tax as a result of differential tax rates and increased remote work opportunities.[23]

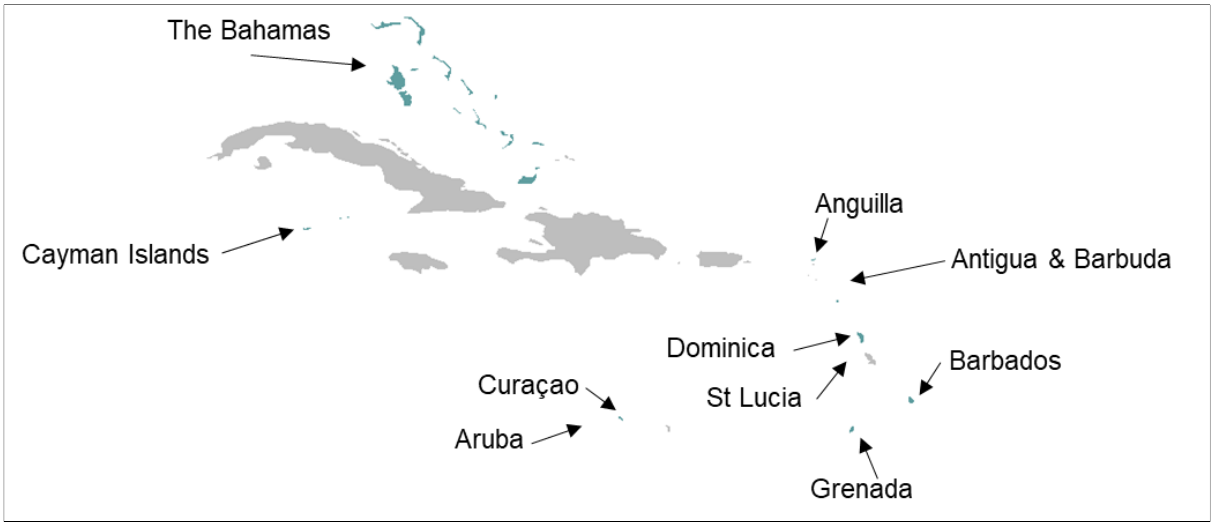
Due to the novelty of DNV programs, no empirical evidence is available so far on their (tax evasion or avoidance) consequences. Naturally, the question arises whether countries notorious for setting a preferential tax system to attract mobile individuals are also becoming attractive jurisdictions for digital nomads. Although many countries launched digital nomad programs in the wake of the pandemic, small Caribbean islands like the Bahamas, Barbados, and the Cayman Islands have been among the pioneers. Figure 2 zooms in on the Caribbean region and highlights the countries that have introduced a DNV.

In total, ten countries in the Caribbean region have implemented a DNV by May 2023, and all of them are considered tax havens according to the definition of Johannesen and Zucman

[23] For more information, see IMF Fiscal Monitor (April 2022) available at https://www.imf.org/en/Publications/FM/Issues/2022/04/12/fiscal-monitor-april-2022

(2014) and Gravelle (2015). In fact, the majority of countries offering a DNV are tax havens offering a zero personal income tax.

Figure 2: Digital Nomad Visa in the Caribbean Region



Notes: Figure 2 shows a map of the Caribbean region and highlights the countries with a DNV in place as of May 2023. For more information on the data sources, see the note below in Figure 1.

Table 2 summarizes the key differences in DNVs between tax havens and non-tax havens. Generally, the programs offered by tax havens involve a more straightforward application process (online applications are more common), lower documentation requirements (criminal record checks are less often required), and more favorable benefits in terms of duration.

Table 2: Key Differences across Digital Nomad Visa

	Tax Havens	Non-Tax Havens
Online Application	68%	33%
Application Cost	Approx. USD 0 - USD 2,000	Approx. USD 50 – USD 2,800
Program duration	Three months – 3 years	Six months – 5 years

Annual Income Threshold	Approx. USD 18,000 – USD 100,000	Approx. USD 11,000 – USD 110,000
No Criminal Record	20%	38%

Notes: Information on digital nomad visas is self-collected by the authors of this article. For more information, see note to Figure 1.

In the following, we discuss why DNVs could pose a threat in terms of tax avoidance and evasion, focusing on the taxation of individuals.[24] We first look at ways in which digital nomads could avoid taxation (legal practice), followed by a discussion of opportunities for tax evasion (illegal activity) by the use of DNVs.

DNVs facilitate taking up residence in a foreign country and could therefore facilitate tax avoidance by allowing individuals to move tax residency. In other words, DNVs offer an opportunity for individuals to choose where they want to be taxed.[25] To do so, digital nomads have to give up tax residency in the origin country and claim tax residency in a preferably lower tax country. Residency for tax purposes is determined based on physical presence or economic and social ties to a country. Physical presence is often triggered if the individual resides for more than 183 days in the country's territory (183-day rule). As soon as a digital nomad intends to spend more than half a year in a foreign low-tax country, the stay may generate an opportunity to reduce the individual's tax burden.[26] Going beyond most tourist visas, DNVs often offer, at the minimum, a one-year residence permit, with some offering up to four years of residency. However, alternative criteria to determine residency are usually used in

[24] We focus on individual taxation exclusively given the overall scope of this chapter. Yet, the taxation of the businesses of nomadic individuals can also be impacted by digital nomadism as working remotely can facilitate, for example, choosing the place of company incorporation from a tax optimizing perspective. For example, Malta is often named as a beneficial country to incorporate, https://www.atlys.com/post/5-tax-friendly-countries-in-europe-for-digital-nomads.

[25] Croatia is one of the few countries that explicitly rules out the possibility to trigger residency for tax purposes under the DNV, even if visa holders remain in the country for more than half a year. In the remaining cases, the bilateral tax treaty or domestic law will establish where the individual should be taxed.

[26] At the same time, it also poses a threat of double taxation of income if the individual remains tax resident in the country of origin.

conjunction with the 183-day rule. Digital nomads that want to avoid residency in their origin country might, for example, have to give up or rent out any home available to them to proof to their origin country's tax authority that their social and economic ties, as well as the place of habitual abode (the place where an individual is most regularly), lie outside the origin country's territory. The complexity of giving up tax residence in the origin country is an issue often discussed on digital nomad blogs, and recommendations given include to rent an apartment *only* in the country of chosen tax residency while giving up any condo in the country of origin to be able to provide proof of center of living in that other country.

It appears that destination countries of digital nomads that are not classical tax havens have become aware that they can attract more digital nomads by offering tax incentives along with digital nomad visas. Greece introduced a policy offering a 50 percent reduction of income tax and social security contributions for up to 7 years, along with the introduction of a DNV.[27] Portugal grants a 20 percent tax rate on individuals' domestic income and no tax on foreign-earned income when moving to the country for up to 10 years.[28] Costa Rica exempts digital nomads from income taxes and customs taxes on technological work equipment for the entire duration of the DNV program (OECD 2022). An important exception from the rule of residency-based taxation of worldwide income is the U.S. tax system that taxes worldwide income based on citizenship. However, taking up tax residency in a low-tax country could also interest US digital nomads. While all US citizens living abroad have to file a US tax return, the Foreign Earned Income Exclusion (FEIE) allows the exclusion of up to USD 108,700 (this value relates to the tax return for 2021) of income earned outside of the U.S.

[27] See, for example, https://www.hg.org/legal-articles/tax-liability-of-digital-nomads-in-greece-64182 as well as https://www.atlys.com/post/5-tax-friendly-countries-in-europe-for-digital-nomads

[28] See https://www.lisbob.net/en/blog/nhr-status-portugal-non-habitual-resident-tax-guide and https://immigrantinvest.com/blog/beneficial-tax-regime-nhr-in-portugal-en/.

Some digital nomads might take the tax planning scheme to an extreme by either using specific features of DNVs that allow them to reduce their income tax liability to almost zero, trying to bypass being tax resident anywhere at all, or faking their non-residential status. For example, the desistance of Portugal from taxing foreign-earned income reduces effective taxation – perfectly legally – close to zero if most of the income of a digital nomad is foreign-sourced, which is very likely the case given that DNVs typically disallow digital nomads to conduct major business activities or earn most of her income locally. Moreover, it is also possible to avoid tax residency altogether if deregistering the tax residency when leaving the country does not require proof of tax residency in another jurisdiction, which is possible, for example, in Germany and Austria. However, many other high-tax countries, such as Spain, typically require proof of tax residency in another jurisdiction before the individual is able to give up tax residency. While bypassing tax residence lies in the gray area of legality and might trigger retrospective taxation of previously untaxed income in some countries, faking non-residential status, i.e., claiming tax residence in another country without giving up the social and economic ties in the home country, is clearly illegal. However, next to potential hurdles posed by the home country to giving up residency, this form of tax dodging is complicated by banks and insurers, which usually require information on an individual's tax residence, such as a tax ID. This is especially the case now in view of increased third-party reporting, for example, from online platforms as the one mandated under the recently launched 7th amendment to the directive on administrative cooperation (DAC7) with the aim to reduce cross-border tax evasion from the sharing economy.[29] Thus, while individuals may very well use this strategy, as evidenced by the Spanish tax authorities' investigations, the more likely scenario is that

[29] Each EU member state has time until December 2022 to transpose the directive into law. DAC7 impose a new disclosure duty on digital platforms to collect, verify and report information on every client who has undertaken significant activities on the digital platform. See https://www.pwc.com/mt/en/publications/tax-legal/dac7-the-new-digital-platform-reporting-rules.html

digital nomads use their locational flexibility to increase legal tax planning by selecting a low-tax country as a place of physical residence.

Furthermore, the DNV might facilitate cross-border tax evasion in ways more similar to the misuse of CBI and RBI programs for tax evasion. The reason CBI and RBI programs are particularly prone to be exploited for tax evasion is that individuals can gain access to a country without being present physically for notable amounts of time (Christians 2017a), which gives them the opportunity to falsely claim residency. In contrast, digital nomad visas do not grant long-term residence nor citizenship rights, which suggests that they are, on the surface, less likely to be exploited for claiming false residency. Yet, they present features that can pose similar threats, especially when it comes to investments. Generally, obtaining a DNV does not automatically represent a preferential channel to invest in a country. In this regard, it does not automatically facilitate the opening of a local bank account. Yet, there are exceptions to that. For example, when an individual gets access to the DNV in the United Arab Emirates, she automatically is issued an Emirates ID which enables her to open a local bank account. Thus, also temporary residence certificates, as those under DNVs, can be potentially misused to circumvent the reporting duty under the automatic exchange of information on financial assets in a similar manner as CBI and RBI programs do.

Another possible loophole is the acquisition of a DNV in a country that (i) does not trigger a change in residency and (ii) is not part of the OECD CRS for automatic exchange of financial accounting information. Setting up a bank account in such a country would not run the risk of automatic exchange of information on the bank accounts to the individual’s true residence country and would therefore offer the opportunity to evade income taxes in the residence country. Georgia is an example that satisfies these criteria.[30]

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[30] See e.g., https://visaguide.world/digital-nomad-visa/georgia/ and https://nomadflag.com/tbilisi-georgia/.

IV. CONCLUSION AND A TENTATIVE OUTLOOK INTO THE FUTURE OF INDIVIDUAL INCOME TAXATION

In this chapter, we have evaluated two recent phenomena in light of cross-border individual income taxation: the development of CBI and RBI programs and the newly launched DNV programs. In some respects, both types of programs appear to be quite different from each other. For example, CBIs and RBIs are more extensive in the rights they bestow but also more exclusive to the very wealthy as compared to DNV programs. Despite the differences, we find that there are also interesting parallels, especially when it comes to the potential (mis)use of them in the context of tax avoidance and evasion.

We observe that although numerous countries have launched CBI/RBI or DNV programs in the recent past, many of the early adopters are those countries notorious for offering preferential tax systems. Tax avoidance and evasion opportunities can therefore arise because such programs offer individuals, in principle, an opportunity to choose their tax residency. Irrespective of whether the change in the tax residence is indeed concomitant with a physical relocation, the consequence is that individuals may be only subject to limited – if at all – taxation in their home country. In this chapter, we have summarized the growing empirical literature on the use of RBI/CBI programs to evade tax.

However, especially the propagation of DNV programs, which mainly target higher-middle income rather than the richest individuals, may foster international tax competition by tapping into deeper parts of the income distribution. Eventually, high-tax countries might experience a further reduction of tax revenues with possibly unforeseeable implications for the welfare state if the tax burden is shifted even further toward lower incomes. We might therefore encounter an evolution of the individual income tax system similar to the development of the corporate tax system. In the mid-2000s, countries started to introduce so-called patent box regimes to attract mobile corporate income by offering preferential tax treatment to intellectual property.

While the effectiveness of patent box regimes may depend on the specific features (Bradley, Robinson, and Ruf 2021), the idea of digital nomad visas is somewhat similar in that they are supposed to attract capital to stimulate local economies as well as unique knowledge that is transferred to the host country.[31] However, the possibility of preferential tax treatment may also open Pandora's box of creating incentives even for historically rather inconspicuous countries to become a tax haven[32] and with, it our perception of who is – or more cynically who is not – a tax haven.

The continuous rise of avoidance and evasion opportunities in the future may raise the question of whether the current system of individual income taxation is still adequate in terms of efficiency and equity considerations, let alone the financing of a generous welfare state. The innovativeness of tax havens to create these opportunities thus resurrects the fundamental question of where individuals *should* be taxed. Avi-Yonah (2021) argues that in a world in which digital nomadism is prevalent, that is, where the place of work or citizenship can be disconnected from residence, the taxing right should be assigned based on ability to pay and, therefore, the country of citizenship as opposed to the country of residence (where it should be assigned to on base of the benefit principle). The argument is that taxation should occur at the place where individuals have the right to participate in political decision-making and therefore influence the tax burden levied on them.

However, the problem with citizen-based taxation is that it does not address the issue of individuals, especially rich individuals, seeking to obtain citizenship in low-tax countries to avoid taxation. As a solution, Avi-Yonah (2021) suggests that a residence country should have the right to impose tax on an individual if the country of citizenship refrains from doing so at

[31] See, e.g., Bahar, Choudhury, and Rapoport (2020), who find evidence that migrants facilitate the technology-specific diffusion of knowledge across nations.
[32] An example is the previously discussed tax incentives in Portugal. For a comprehensive overview of tax haven characteristics and incentives, see Chapters 2 and 13.

all. Moreover, a country should only be considered the country of citizenship if the individual has more substantial links to the country than just the possession of a nominal passport. In such a system, the country of citizenship needs to bestow substantial political participation rights in order to be acceptable by the country of residence as the holder of the right to tax an individual. The future will tell whether such an approach is practical and sufficient in a world in which previously deemed non-haven countries may effectively cease taxing individuals.

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