Tier 1 (Investor) route

Investment thresholds and economic benefits

Migration Advisory Committee

February 2014

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Chairman's Foreword

The UK has provided indefinite leave to remain (ILR or settlement), often leading to UK citizenship, for two decades for high net worth individuals and their families. Many other countries have similar schemes. But the purpose of this UK immigration route is not set out anywhere – what is in it for UK residents?

At the outset three points should be understood. First, as with all migration flows, the main beneficiaries are the migrants. Investors benefit from, for example, rule of law, property rights and access to efficient markets. Second, at present, the investment is a loan, not a gift. Third, the standard £1 million investment threshold has not been altered since 1994.

Most stakeholders assert that this route is self-evidently beneficial. This view is held strongly by the law firms, accountants and consultancies that help organise the affairs of such investors. Such an assertion is inadequate. It is possible the route benefits UK residents but evidence, rather than assertion, is required.

What are the mechanisms by which UK residents, in addition to the migrants, may gain? Three main possibilities are normally suggested: funding the budget deficit; spending and tax revenue; and productive efficiency. I briefly consider each in turn.

Most individuals invest in gilts – they loan the UK government £1 million for five years. But we do not need such investment to fund the deficit. We are selling around £300 million of gilts every day – therefore the capital market is working very efficiently. Presently the annual aggregate loan via the investor route is equivalent to less than two days of our budget deficit.

Investors and their families spend money in the UK. This may generate some employment and some revenue, but these favourable impacts are typically exaggerated. For example, many stakeholders claim that the UK government gains stamp duty revenue if the investor buys a house. Such an argument completely neglects the counterfactual – someone else would buy the house if the investor did not.

Some investors – probably a modest number – engage in entrepreneurial activity to the benefit of the UK. But we already have an entrepreneur route, so it is not self-evident that such activity should occur via the investor route. Perhaps, instead, the entrepreneur route needs some reform.

In this report the Migration Advisory Committee is not stating that there is little or no gain to UK residents from the investor route. Rather, we express some healthy scepticism concerning the benefits normally asserted. But we believe that there are some straightforward reforms which would make it much more likely UK residents gain. These include: raising the investment threshold; encouraging alternative investments; auctioning some slots; and altering the residency requirements.

The £1 million investment threshold is probably too low – it has not been raised since 1994. The MAC recommends raising it in line with earnings growth since 1994, yielding a threshold of £2 million.

Alternative investments should be considered. These include infrastructure bonds and venture capital.

A further reform might involve auctioning some slots (with, as always, due diligence concerning the investors). At present it is not possible to determine the optimal price – investment threshold – for a visa under the Tier 1 (Investor) route. One approach to determining the price would be to auction a certain number of slots, say 100, with a reserve price a little above the investment threshold (recommended to be £2 million), perhaps £2.5 million**.** The government would receive the excess over the £2 million. This surplus could go to a good causes pot analogous to national lottery spending.

In order to encourage investors to enter the auction, the MAC recommends two incentives be provided. First, the investors who gain an auction slot should receive accelerated settlement after two years. Second, the residence requirements for such investors should be relaxed.

Two final matters are worth noting. First, even if – as the MAC suspects – this route confers less benefit to the UK than is normally asserted, there may be a case for retaining it to signal that the UK is open and welcoming to people who wish to contribute to the wellbeing of UK residents. But it would be injudicious for the UK to enter a “race to the bottom”, matching special offers recently introduced by, for example, Malta, Portugal, and Antigua.

Second, the distribution of income matters as well as the level of income. And the investors route – like other migrant routes – impacts on the distribution. For example, it is plausible that because the supply of housing is inelastic, house owners – particularly in London – gain from this route whereas non-house owners do not. Such considerations need to be factored into any evaluation of this route.

The MAC is again grateful to its outstanding small secretariat for providing both excellent analysis and thorough, gracious interaction with stakeholders.

David Metcalf

Professor Sir David Metcalf CBE

The Migration Advisory Committee and secretariat

The Migration Advisory Committee (MAC) is a non-departmental public body comprised of economists and migration experts. It provides independent and evidence-based advice to the Government on migration issues. Questions to the Committee are determined by the Government.

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Members

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Dr Martin Ruhs

Professor Jonathan Wadsworth

Professor Jackline Wahba

UK Commission for Employment and Skills representative

Lesley Giles

Home Office representative

John Thompson

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Chapter 1 Introduction

1.1 Migration Advisory Committee

1.1 The Migration Advisory Committee (MAC) is a non-departmental public body comprised of economists and migration experts that provides transparent, independent and evidence-based advice to the Government on migration issues. The questions we address are determined by the Government.

1.2 Previously we have provided advice on, amongst other things, the design of the Points Based System (PBS) for managed migration including annual limits, the transitional labour market access for citizens of new European Union (EU) accession states, the economic impact of restricting or removing settlement rights and the minimum income requirement for sponsorship under the family migration route.

1.2 What we were asked to do

1.3 On 9 October 2013, the Minister for Immigration asked us to consider the following question and to report back to the Government by 7 February 2014:

"At present, the minimum level of investment for the Investor category is £1 million but accelerated settlement status can be achieved by investing either £5 million or £10 million. Migrants may use money loaned to them by UK banks when making their investment. The MAC is asked to consider whether the investment thresholds are appropriate to deliver significant economic benefits for the UK, in particular the minimum £1m threshold?"

1.3 What we did

1.4 The consideration in this report is based on a combination of desk-based research and evidence we received from corporate partners gathered through a series of targeted activities. In this report "corporate partners", or just "partners", refers to all parties with an interest in our work or its outcomes, and other Government departments, financial institutions, legal firms, representative bodies and private individuals are included within this term. We also considered the findings of a recent report we commissioned from the National Institute of Economic and Social Research (NIESR) and the Migration Observatory titled *'The Economic and Labour Market*

Impacts of Tier 1 entrepreneur and investor migrants', which was published on our website in July 2013.

1.5 We issued a call for evidence on 18 October 2013 and this closed on 29 November 2013. Given the Government's reporting deadline, the call for evidence period had to be shorter than usual. The call for evidence document restated the Government's commission and identified some sub-questions on which we wished to receive corporate partners' views. The document was sent to a number of partners, including approximately 200 individual Tier 1 investors, and was posted on our website.

1.6 The call for evidence sought to gather partners' views on the benefits to the UK of the Tier 1 (Investor) route, the factors which may affect these benefits, and investors' motivations for investing in the UK. The questions in our call for evidence were:

1. *What do you consider to be the net economic benefits to the UK of the Tier 1 (Investor) route? Please provide evidence to support your views, taking into account the following factors:*

   - *The direct benefits resulting from the migrant's investment in the UK, bearing in mind that such investment may be withdrawn once the migrant obtains indefinite leave to remain;*
   - *The indirect benefits from wider expenditure by the main Tier 1 applicant and their dependants on goods and services in the UK;*
   - *The extent to which these benefits may be affected by the migrant's absences from the UK;*
   - *The timeframe over which these benefits may be realised; and*
   - *Any direct and indirect costs to the UK economy related to the existence of the Tier 1 (Investor) route and the presence of Tier 1 investors in the UK.*

2. *How might these benefits and/or costs be affected by the current financial thresholds for the Tier 1 (Investor) route? Can you provide any evidence to demonstrate the potential impact on these benefits and/or costs for the UK should these thresholds be revised (either increased or decreased)? The current financial thresholds are as follows:*

   - *£1 million for investors seeking settlement after five years;*
   - *£5 million and £10 million for investors seeking settlement after three and two years respectively.*

3. *What are the prime motivations for investing in the UK in preference to other countries? How are these motivations affected by:*

- *Economic and business factors, such as taxation policies, regulation, the ease of doing business or economic growth prospects; and*

- *Non-economic and non-business factors, such as the education system, language spoken, and social and cultural factors?*

4. *How might the economic benefits and/or costs of the Tier 1 (Investor) route be affected by the current forms of investment specified by the requirements of that route? Specifying, where possible, how you would measure the relative benefits of different investments and over what time periods, please provide evidence to demonstrate:*

- *Any potential increase in economic benefit for the UK should the specified forms of investment be relaxed or further restricted;*

- *Alternative forms of investment which may deliver greater economic benefits to the UK.*

- *Any potential change in economic benefit for the UK should the requirement for investment to "hold value" be relaxed.*

1.7 We hosted a general partner event in London in November 2013 and attended a number of further meetings with partners. We also held teleconferences with a number of Tier 1 investors. A full list of those with whom we met, and who have not requested anonymity, is provided in Annex A.

1.8 We received 25 written submissions of evidence from organisations and 12 written responses from individuals. All written and oral evidence from partners was considered alongside our own data analysis and examination of relevant theory and literature. A list of those who supplied evidence, and who have not requested anonymity, is provided in Annex A to this report.

1.4 Structure of the report

1.9 In order to consider fully the question in the Government's commission it is necessary to have a clear understanding of whether the Tier 1 (Investor) route, as currently constituted, delivers significant economic benefits for the UK. The report is therefore presented in two broad parts.

1.10 First, we provide background and contextual information for the Tier 1 (Investor) route, including analysis of the characteristics of those who are issued entry clearance and extensions of stay under the route (Chapter 2). Thereafter we focus on the economic contribution of Tier 1 investors, covering the investment sum, consumption spending, contribution to the exchequer, and any potential dynamic effects (Chapter 3).

1.11 The second half of the report focuses on how revisions to the current investment thresholds may impact upon the economic benefits of the Tier 1 (Investor) route. We consider the UK's position in a competitive international environment and the motivations of those Tier 1 investor migrants who choose to reside in the UK (Chapter 4). We then outline potential options for reform, including but not limited to minimum investment thresholds (Chapter 5), before providing our recommendations and conclusions (Chapter 6).

1.5 Thank you

1.12 We are grateful to all partners who responded to our call for evidence and to those who engaged with us at meetings and events. We are particularly grateful to those partners who organised or hosted events on our behalf.

Chapter 2 Policy and data context

2.1 Introduction

2.1 This chapter begins with an overview of the UK Points Based System (PBS) for immigration along with a more detailed description of the main elements of the Tier 1 (Investor) route. Although the commission from the Government did not ask us to consider the other routes under Tier 1, we include an overview of the Tier 1 (Entrepreneur) and Tier 1 (Graduate Entrepreneur) routes for comparative purposes. The chapter then focuses on an analysis of the available background data on the Tier 1 (Investor) route.

2.2 Overview of the Points Based System and Tier 1

2.2 The PBS for migration to the UK from outside the European Economic Area (EEA) was introduced in 2008 and consists of five tiers as set out in Table 2.1 below.

Table 2.1: The five tiers of the Points Based System (PBS)

Name of tier	Immigrant groups covered by tier
Tier 1	Investors, entrepreneurs, graduate entrepreneurs and exceptionally talented migrants.
Tier 2	Skilled workers with a job offer in the UK.
Tier 3	Low-skilled workers needed to fill specific temporary labour shortages. Tier 3 has never been opened.
Tier 4	Students.
Tier 5	Youth mobility and temporary workers. This route is for those allowed to work in the UK for a limited period of time to satisfy primarily non-economic objectives.

Source: Home Office (2014a)

Tier 1 (Investor) route

2.3 The UK Government has operated a migration route for investors since 1 October 1994. Up to 2004, investor applicants were required to hold at least £1 million in the UK and to invest £750,000 in UK Government bonds, stocks or corporate bonds. In addition, the applicant had to make the UK their main home.

Tier 1 (Investor) route

2.4 In 2004, the Government made a change to the route to permit the investment funds to be sourced through a loan from a UK regulated financial institution provided that the applicant had personal assets (once any liabilities were taken into account) of at least twice the value of the investment.

2.5 In 2008, the Government made significant changes to the UK immigration system, introducing the Points Based System. These changes included provisions for investors within Tier 1. The Tier 1 (Investor) route was established for high net-worth individuals wishing to make a substantial financial investment of at least £1 million in the UK. Applicants under this route must demonstrate that they hold £1 million in a regulated financial institution and which is disposable in the UK.

2.6 In April 2011, the Government introduced provisions for accelerated settlement under this route for those who choose to invest higher sums. Details of how the settlement periods vary are provided at paragraph 2.10 and Table 2.2 below. The residence requirement element of the route was also reduced to permit absences of 180 days per year. Previously, only short absences were permitted and absences from the UK must have been for no more than three months at a time and a total of no more than six months over the five years.

2.7 Other than the criteria outlined above, there are very few additional requirements or restrictions on a successful applicant under the Tier 1 (Investor) route. Although such persons are free to work whilst in the UK there is no requirement that they do so, the rationale being that they have sufficient funds to support themselves and their family without recourse to work. Additionally, migrants under the Tier 1 (Investor) route are not required to satisfy any English language or maintenance requirements. Tier 1 (Investor) migrants are not eligible for most state benefits.

2.8 Successful applicants under the Tier 1 (Investor) route are granted an initial period of leave to remain in the UK of three years and four months for out-of-country applicants, that is those who apply for their entry clearance visas overseas, and three years for in-country applicants. At the end of this period of leave, an extension can be sought for a further two years.

2.9 To qualify for settlement in the UK, migrants under the Tier 1 (Investor) route must complete a continuous period of residence in the UK of two, three or five years depending on the level of their investment. During the continuous residence period, migrants are not permitted to be absent from the UK for more than 180 days in total in any consecutive 12 month period.

2.10 The continuous residence period for settlement is **two** years if a migrant under the Tier 1 (Investor) route can demonstrate that they have invested at least £10 million in the UK. The continuous residence period is **three** years if a migrant can demonstrate that they have invested at least £5 million in the UK. The continuous residence period is **five** years if a migrant can demonstrate that they have invested at least £1 million in the UK.

2.11 Migrants under the Tier 1 (Investor) route must comply with the English language and knowledge of life in the UK requirements before being granted settlement, also known as Indefinite Leave to Remain (ILR), in the UK.

Tier 1 (Entrepreneur) route

2.12 The Points Based System includes separate provisions for entrepreneurs as well as investors. The Tier 1 (Entrepreneur) route is for individuals who wish to establish or take over, and be actively involved in the running of, a business or businesses in the UK. Those who apply under the Tier 1 (Entrepreneur) route must demonstrate that they have access to £200,000 which they will put into a business or businesses in the UK.

2.13 Alternatively, those who apply under the Tier 1 (Entrepreneur) route can meet the requirements by demonstrating that they have access to at least £50,000 from:

- One or more registered venture capital firms regulated by the Financial Services Authority (FSA);
- One or more UK entrepreneurial seed funding competitions listed as endorsed on the UK Trade and Investment (UKTI) website; or,
- One or more UK Government departments or devolved Government departments in Scotland, Wales or Northern Ireland, made available by the department(s) for the specific purpose of establishing or expanding a UK business.

2.14 Migrants who enter the UK under the Tier 1 (Entrepreneur) route are not permitted to access public funds or to take employment outside that of the business they have established, joined or taken over. In addition, such migrants are required to satisfy the relevant English language requirements, and hold savings of £3,100 to satisfy maintenance requirements. Additional maintenance requirements apply where the migrant is accompanied by family members/dependants.

2.15 Migrants under the Tier 1 (Entrepreneur) route are granted an initial period of leave of no more than three years and four months for out-of-country applicants, and three years for in-country applicants. At the end of this period of leave, an extension can be sought for a further two years.

2.16 To qualify for settlement, migrants in the Tier 1 (Entrepreneur) route must complete a continuous residence period of three or five years dependant on the level of business activity in the UK. During the continuous residence period, absences from the UK amounting to more than 180 days during any 12 calendar month period are not permitted.

Tier 1 (Investor) route

2.17 The continuous residence period for settlement under the Tier 1 (Entrepreneur) route is three years if a migrant can demonstrate that they have invested the above funds and created in their business at least 10 new full-time jobs for persons settled in the UK. Alternatively, they can demonstrate that they have established a new UK business that has had an income from business activity of at least £5 million during the three year period while they have been in the UK under the Tier 1 (Entrepreneur) route. A further alternative is where a Tier 1 entrepreneur has taken over, or has invested in, an existing UK business, and their services or investment have resulted in a net increase of £5 million in that business's income from activity during the three year period while they have been in the UK under the Tier 1 (Entrepreneur) route, compared to the immediately preceding three year period.

2.18 The continuous residence period is five years for all other migrants under the Tier 1 (Entrepreneur) route if they can demonstrate that they have invested the above funds and created in their business at least two new full-time jobs for persons settled in the UK.

2.19 The partner of a migrant under the Tier 1 (Entrepreneur) route can apply for settlement alongside the main applicant provided that they have lived together in the UK for five years (or two years if they were first granted an entrepreneur visa before 9 July 2012) prior to the application for settlement. Children can apply alongside the main applicant.

2.20 Migrants under the Tier 1 (Entrepreneur) route who apply for settlement are required to comply with the English language and knowledge of life in the UK requirements.

Tier 1 (Graduate Entrepreneur) route

2.21 The Tier 1 (Graduate Entrepreneur) route was opened on 6 April 2012 to in-country applicants and to out-of-country applicants on 6 April 2013.

2.22 Unlike other Tier 1 routes, applicants under this route require an endorsing organisation, an A-rated (one which the Government consider to be highly trusted) Higher Education Institution (HEI), to support their application. HEIs are permitted to sponsor non-EEA students to remain in the UK for up to two years to develop a genuine and credible business idea. The sponsor is responsible for identifying and supporting the applicant and must continue to monitor the applicant’s progress throughout the course of their period of leave.

2.23 An applicant under this route must have been awarded a degree or PhD by their sponsoring organisation within the previous 12 months. If successfully awarded a Tier 1 (Graduate Entrepreneur) visa, the migrant must spend the majority of their working time on developing their idea, although they are permitted to undertake other employment to a maximum of 20 hours per week.

British Citizenship

2.24 Migrants under the Tier 1 route can apply for British citizenship in accordance with the British Nationality Act 1981 (as amended). The Act provides for a qualifying period of five years lawful residence in the UK, the last 12 months of which must have been spent with no conditions attached to the migrant's leave. In practice, this means that investors who obtain settlement in the UK either two or three years after applying under the Tier 1 route can qualify for citizenship five years after that successful Tier 1 application and those who settle in five years can qualify for citizenship after six years in the UK.

Table 2.2: Qualification periods – settlement and citizenship

Investment sum	Settlement qualification period	Citizenship qualification period
£1 million	5 years	6 years
£5 million	3 years	5 years
£10 million	2 years	5 years

Source: Home Office (2014b)

Recent changes to Tier 1

2.25 One of the Home Office's priorities is *"controlling migration to limit non-EU economic migrants."* (Home Office). This may be achieved, in part, by applying a limit or by increasing the levels of earnings and skill required to qualify. For example, the Tier 2 (General) route is subject to a limit of 20,700 per annum though currently this is undersubscribed, in large part due to an increase in the skill requirement. By contrast on 23 November 2010, the Home Secretary confirmed that the Tier 1 (Investor) and Tier 1 (Entrepreneur) routes would not be subject to an annual limit, perhaps reflecting the small numbers involved or the perception that Tier 1 migrants are high value. There is, however, an annual limit of 2,000 places for the Tier 1 (Graduate Entrepreneur) route for the year 6 April 2013 to 5 April 2014.

2.26 On 31 January 2013, the then UK Border Agency (UKBA) introduced changes to the way in which applications under the Tier 1 (Entrepreneur) route would be assessed. An applicant under the Tier 1 (Entrepreneur) route must now demonstrate that the required funds are, and have been, available on an ongoing basis, rather than simply at the time of application. In addition, applicants under this route can now be required to provide more detailed evidence as to the investment that they propose to make; for example, providing detailed business plans and attending interviews to verify whether they are genuine entrepreneurs.

2.27 On 6 April 2013, the Immigration Rules were amended to expand the Tier 1 (Graduate Entrepreneur) route to provide additional places for talented MBA graduates from UK Higher Education Institutions and to accommodate the UK Trade and Investment (UKTI) elite global graduate entrepreneur scheme.

Tier 1 (Investor) route

2.28 Tier 1 of the Points Based System has also been subject to review by the Independent Chief Inspector. In September 2013 he published his findings in his report entitled *“An Inspection of applications to enter and remain in the UK under the Tier 1 Investor and Entrepreneur categories of the Points Based System”*, which resulted in some procedural amendments by the Home Office (Independent Chief Inspector of Borders and Immigration, 2013).

2.3 Data context for Tier 1

Data sources and limitations

2.29 In this part of the chapter, we set out the main data that relates to the Tier 1 (Investor) route taken from the most recent release (November 2013) of Home Office Immigration Statistics, as well as key descriptive statistics from Management Information (MI) data. The MI data provide information on the age and nationality characteristics of those applicants who apply under the Tier 1 (Investor) route. First, we set out the data used in this analysis and their limitations, and then present the descriptive statistics.

2.30 Data for the overall number of applicants for entry clearance under the Tier 1 (Investor) category (and their dependants) are sourced from the November 2013 release of Immigration Statistics by the Home Office. These are applicants who are not already in the UK prior to applying for the Tier 1 (Investor) visa. We refer to these applicants as out-of-country applicants. Additionally, the Home Office Immigration Statistics also capture information about in-country applicants. These include those individuals who extend their existing Tier 1 (Investor) visa and those who switch to the Tier 1 (Investor) route from another immigration route. That is, these individuals are already in the UK when applying for a Tier 1(Investor) visa. MI data for the further analysis of out-of-country and in-country applicants are sourced from Home Office Performance and Compliance Unit databases. Both MI datasets cover the period from the introduction of the route to September 2013.

2.31 Access to a minimum level of finance of at least £1 million must be demonstrated (when applications are processed) for approval of a Tier 1 (Investor) visa. Therefore we assume that each applicant has access to at least this amount.

2.32 With respect to the higher thresholds of £5 million and £10 million, an applicant needs only provide evidence of this level of investment at the point of applying for ILR in the UK, rather than at the point of initial application under the Tier 1 (Investor) route. These accelerated settlement thresholds were introduced in 2011 which means the earliest possible applications for ILR would have been made in 2013 by those investors who invested £10 million. As such, applications are only just beginning to be made and therefore the data as to the number of applicants that have invested at the higher levels are currently very limited.

2.33 It is important to note that not all the data are presented on an annual basis. Data presented on an annual basis are denoted by *year ending*. It is also important to note that MI data are provisional and subject to change.

Summary of Tier 1 (Investor) migration flows

2.34 The number of Tier 1 (Investor) visas issued each year to both out-of-country and in-country applicants have been increasing since the introduction of the route. This increase has also been seen in applications granted to Tier 1 (Investor) dependants, with a particularly large increase in the number of dependants accompanying out-of-country applicants.

Table 2.3: All Tier 1 (Investor) applications granted to main applicants and dependants, year ending 2009 Q3 to 2013 Q3

Year ending	Out-of-country applications granted		In-country extensions of stay granted	
	Main applicants	Dependants	Main applicants	Dependants
2009 Q3	140	264	147	177
2010 Q3	187	326	158	211
2011 Q3	301	512	109	99
2012 Q3	440	848	252	292
2013 Q3	560	1030	402	433

Notes: Out-of-country applications refer to those individuals who were not already in the UK prior to applying for a Tier 1 (Investor) visa. These individuals can also be referred to as applying for entry clearance under the Tier 1 (Investor) route. In-country applications refer to those individuals who were already in the UK. This includes, for example, those individuals who extend their existing Tier 1 (Investor) visa and those who switch to the Tier 1 (Investor) route from another immigration route. The figures above provide an indication of the number of investors with non-EEA nationality who apply to come to the UK in a given period. However, they do not directly equate to flows of migrants into the UK. Although applications may be granted, the individual might subsequently decide not to migrate to the UK or might not remain in the UK for a period longer than one year. The data are based on the time at which the application is granted. All records were restricted to exclude applications which were not granted.
Source: Home Office (2013a)

2.35 The following sections consider out-of-country and in-country applicants in further detail, with a particular focus on age and nationality characteristics.

Tier 1 (Investor) out-of-country applications

Out-of-country applications granted to Tier 1 (Investor) main applicants

2.36 Long Term International Migration (LTIM) data (ONS, 2013) show that in the year to June 2013 total immigration to the UK was 503,000, of which 242,000 was from outside the European Union (EU). Inflows for work related reasons[1] stood at 202,000 in the same period, of which, based on International Passenger Survey (IPS) data, non-EU work-related inflows accounted for 42,000.

[1] Work-related includes “definite job” and “looking for work”.

Tier 1 (Investor) route

2.37 The latest Immigration Statistics released by the Home Office (2013a), which cover a more recent period than the broader IPS immigration estimates, show that for the year ending 2013 Q3, the total number of successful visa applications across all routes, excluding visitors and transit, was 526,736. Of these, the number of successful Tier 1 applications (for main applicants across all Tier 1 routes) was 1,849, and there were 11,083 successful applications under the Tier 2 (General) route[2]. Successful Tier 1 applicants are thus a very small proportion (less than half a per cent) of all successful applications across all immigration routes.

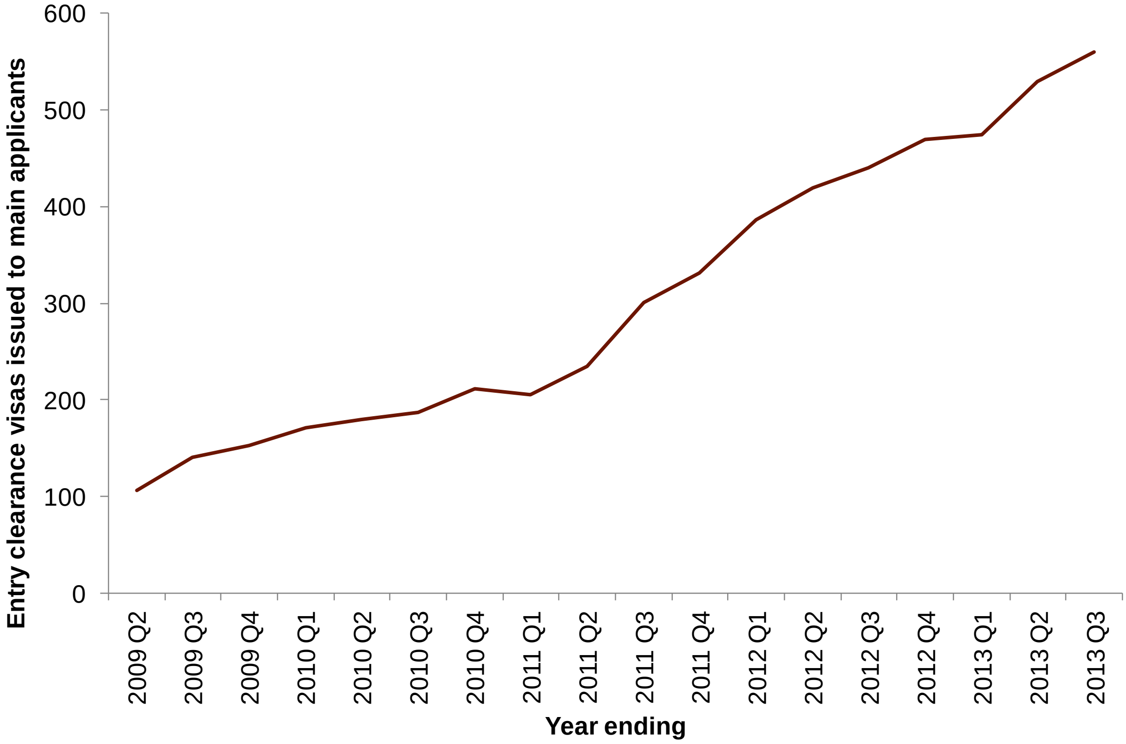
2.38 Over the same period, 560 Tier 1 (Investor) main applicant out-of-country applications were granted. Visas issued under the Tier 1 (Investor) route therefore account for a very small proportion (0.1 per cent) of the total number of visas issued across all routes.

2.39 Whilst the number of visas granted under the Tier 1 (Investor) route is small, it has increased significantly since the introduction of the PBS in 2008. Between the opening of the route and the end of September 2013, 1,647 out-of-country applications were granted for Tier 1 (Investor) main applicants. In the year ending 2009 Q2 there were around 100 out-of-country Tier 1 (Investor) visas issued to main applicants. This grew to around 200 a year by 2011 and to around 500 a year in 2013 (Figure 2.1).

2.40 The majority of Tier 1 (Investor) applications, both main applicants and dependents, are successful. In the year to 2013 Q3, of the 612 Tier 1 (Investor) main applicant out-of-country applications dealt with, only 49 applications (8 per cent of those received) were refused. In the same period, 1,107 out-of-county applications on behalf of the dependants of Tier 1 investors were considered and 71 applications, or just over six per cent, of these were refused.

[2] Excluding Intra-Company Transfers.

Figure 2.1: Out-of-country visas issued to Tier 1 (Investor) main applicants, year ending 2009 Q2 to 2013 Q3



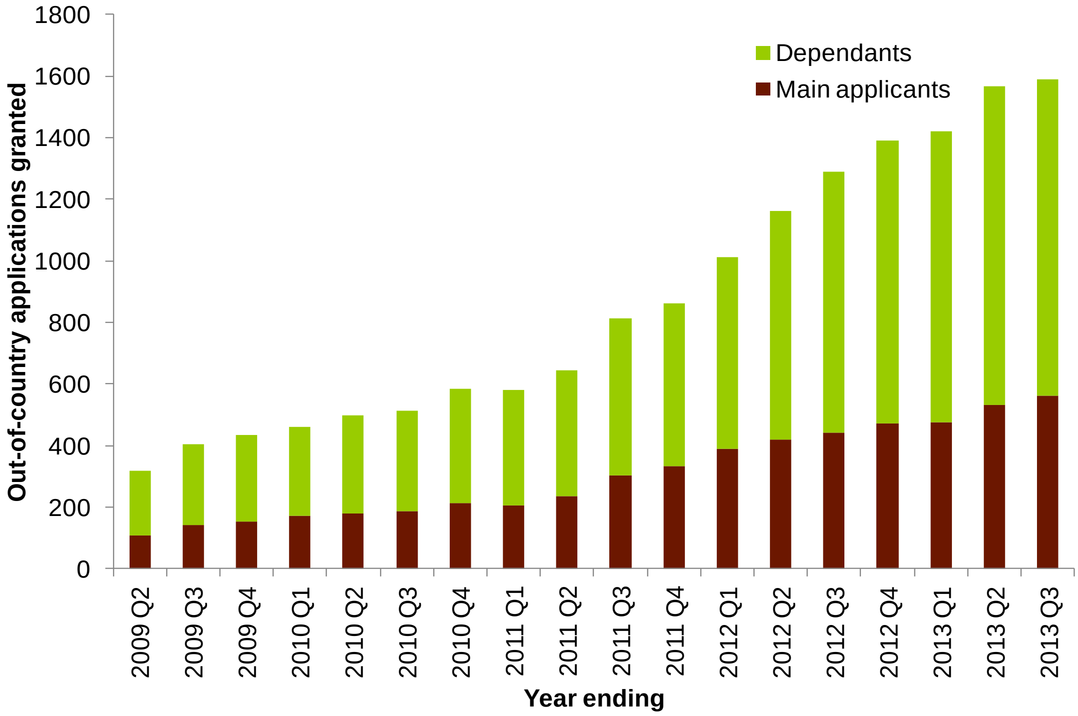
Notes: Out-of-country applications refer to those individuals who were not already in the UK prior to applying for the Tier 1 (Investor) visa. These individuals can also be referred to as applying for entry clearance under the Tier 1 (Investor) route. Non-European Economic Area (EEA) nationals require an entry clearance visa before they are permitted to enter the UK. The figures above provide an indication of the number of investors of non-EEA nationality who apply to come to the UK in a given period. However, they might not directly equate to flows of non-EEA migrants into the UK. The data are based on the time at which the application is granted. Although entry clearance may be granted, the individual might subsequently decide not to migrate to the UK or might not remain in the UK for a period longer than one year. The figures also do not include migrants who entered the UK through another route and subsequently switched into the Tier 1 (Investor) route.
Source: Home Office (2013a)

Out-of-country applications granted to Tier 1 (Investor) dependants

2.41 Based on our analysis of the latest Home Office Immigration Statistics (2013a), as the number of visas issued to Tier 1 (Investor) main applicants has increased since the opening of the route, so too has the number of visas issued to dependants. In the year to 2013 Q3, 1,030 Tier 1 (Investor) dependant out-of-country applications were granted. On average, with respect to all Tier 1 (Investor) visas issued out-of-country, there has been a dependent to main applicant ratio of approximately 2:1 in almost every year since the opening of the route to year ending 2013 Q3. This ratio has remained fairly stable each year.

2.42 The data also show that the Tier 1 (Investor) route had the highest dependant-to-main applicant ratio compared to any other route in 2012. By comparison, the Tier 2 (General) route had a dependency ratio of around 1:1 in 2012. This suggests that Tier 1 investor migrants are more likely to bring family with them, which is consistent with their primary reasons for coming to the UK (discussed in Chapter 3).

Figure 2.2: Out-of-country applications granted to Tier 1 (Investor) main applicants and dependants, year ending 2009 Q2 to 2013 Q3



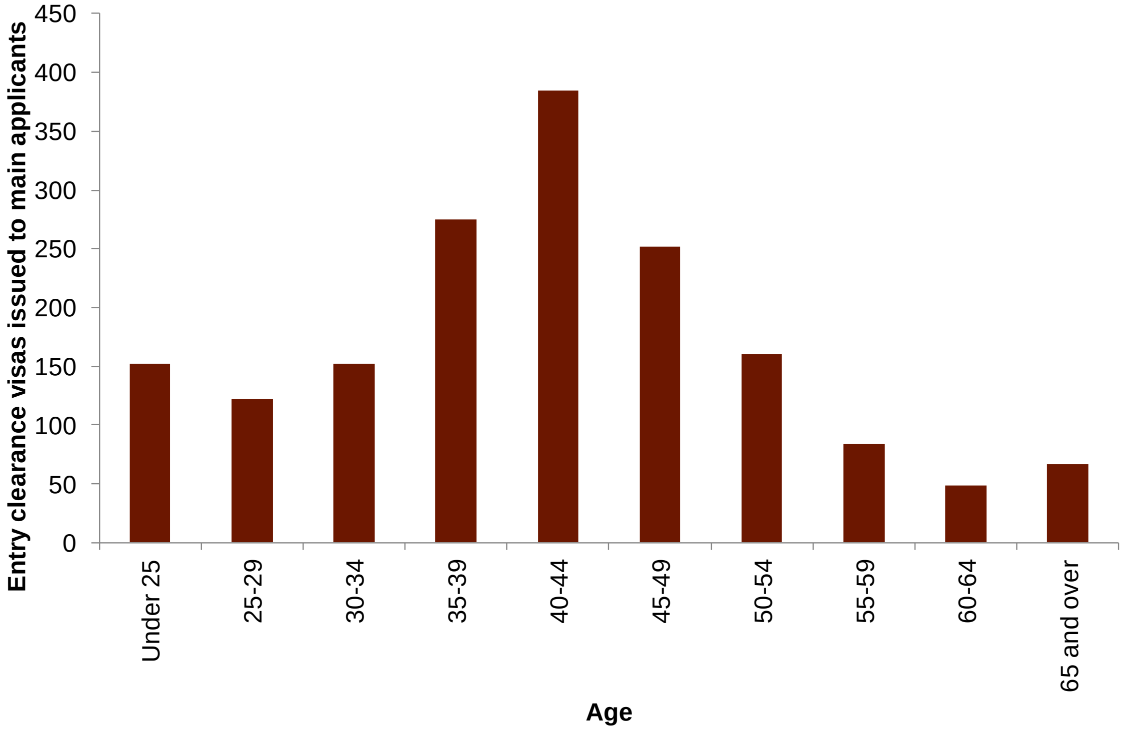
Notes: Out-of-country applications refer to those individuals who were not already in the UK prior to applying for the Tier 1 (Investor) visa. These individuals can also be referred to as applying for entry clearance under the Tier 1 (Investor) route. Non-European Economic Area (EEA) nationals including dependants require an entry clearance visa before they are permitted to enter the UK. The figures above provide an indication of the number of investors and dependants with non-EEA nationality who apply to come to the UK in a given period. However, they do not directly equate to flows of non-EEA migrants into the UK. The data are based on the time at which the application is granted. Although entry clearance may be granted, the individual might subsequently decide not to migrate to the UK or might not remain in the UK for a period longer than one year. The figures also do not include migrants who entered the UK in another route and subsequently switched into the Tier 1 (Investor) route. Records were restricted to exclude applications which were not granted.
Source: Home Office (2013a)

Out-of-country applications granted to Tier 1 (Investor) main applicants by age

2.43 MI on out-of-country applications granted to Tier 1 (Investors) record age of applicants. In order to analyse the age characteristics of the applicants in the data, we took the age on the date that the application was made (as opposed to the date that a decision to issue was made, or the date that the applicant enters the country). Applicants were grouped into age bands. The first band covered those younger than 25 years of age. Subsequent bands were set at five year intervals up to 65 years of age. The final age band covered all those aged over 65.

2.44 Since the introduction of the Tier 1 (Investor) route in 2008, most out-of-country main applicants have been aged between 35 and 49 (Figure 2.3).

Figure 2.3: Out-of-country applications granted to Tier 1 (Investor) main applicants by age, 2008 Q3 to 2013 Q3



Notes: Out-of-country applications refer to those individuals who were not already in the UK prior to applying for the Tier 1 (Investor) visa. These individuals can also be referred to as applying for entry clearance under the Tier 1 (Investor) route. The graph categorises the MI data on all main applicants for out-of-country Tier 1 (Investor) visas since 2008 quarter three until 2013 quarter three into age bands. Records were restricted to exclude individuals whose applications were not granted. The figures quoted are management information which have been subject to internal quality checks, but have not been quality assured. These data are provisional and subject to change.
Source: MAC analysis of Management Information data

2.45 Discussions with stakeholders suggested the age composition of main applicants may have changed in recent years, with a shift towards younger applicants as wealthy foreign nationals increasingly gift £1 million to their children to invest. We therefore carried out further analysis of the MI data to determine the evolution in the age profile of out-of-country Tier 1 (Investor) applicants. Again, the age was calculated as the difference between the date of birth and the date that the application was made. The average age of applicants was considered on a quarterly basis.

2.46 The analysis indicates that the average age of Tier 1 (Investor) out-of-country applicants has remained fairly stable, around an average age of 42, since 2008. Further analysis comparing the age distribution over the last two years, and over the period since the opening of the route, indicates that there has been little, if any, change in the age distribution. This suggests that the shift towards younger applicants does not appear to be occurring for out-of-country applications. However, we found a large proportion of in-country applicants in the under 25 age group, as discussed later in paragraph 2.54.

Out-of-country applications granted to Tier 1 (Investor) main applicants by nationality

2.47 Home Office Immigration Statistics (2013a) record applications for Tier 1 (Investor) visas from 71 nationalities. Our analysis of these data show that between July 2008 and September 2013, Russian and Chinese nationals together accounted for half of the total number of Tier 1 Investor visas granted to main applicants during this period. There were then 96 applications from United States nationals, and at least 40 applications granted each to nationals from Egypt, India and Kazakhstan.

Table 2.4: Top 10 nationalities for total number of out-of-country applications granted to Tier 1 (Investor) main applicants, 2008 Q3 to 2013 Q3

Nationality (Citizen of)	Number of Tier 1 (Investor) visas granted to main applicants
Russia	433
China	419
United States	96
Egypt	46
India	44
Kazakhstan	41
Iran	38
Pakistan	38
Australia	36
Canada	36
Other	420
Total	1,647

Notes: Out-of-country applications refer to those individuals who were not already in the UK prior to applying for the Tier 1 (Investor) visa. These individuals can also be referred to as applying for entry clearance under the Tier 1 (Investor) route. Data on all main applicants for out-of-country Tier 1 (Investor) visas since July 2008 until the end of September 2013 were grouped by the nationality of the applicant. Records were restricted to exclude individuals whose applications were refused.
Source: Home Office (2013a)

Tier 1 (Investor) in-country applications

In-country applications granted to Tier 1 (Investor) main applicants

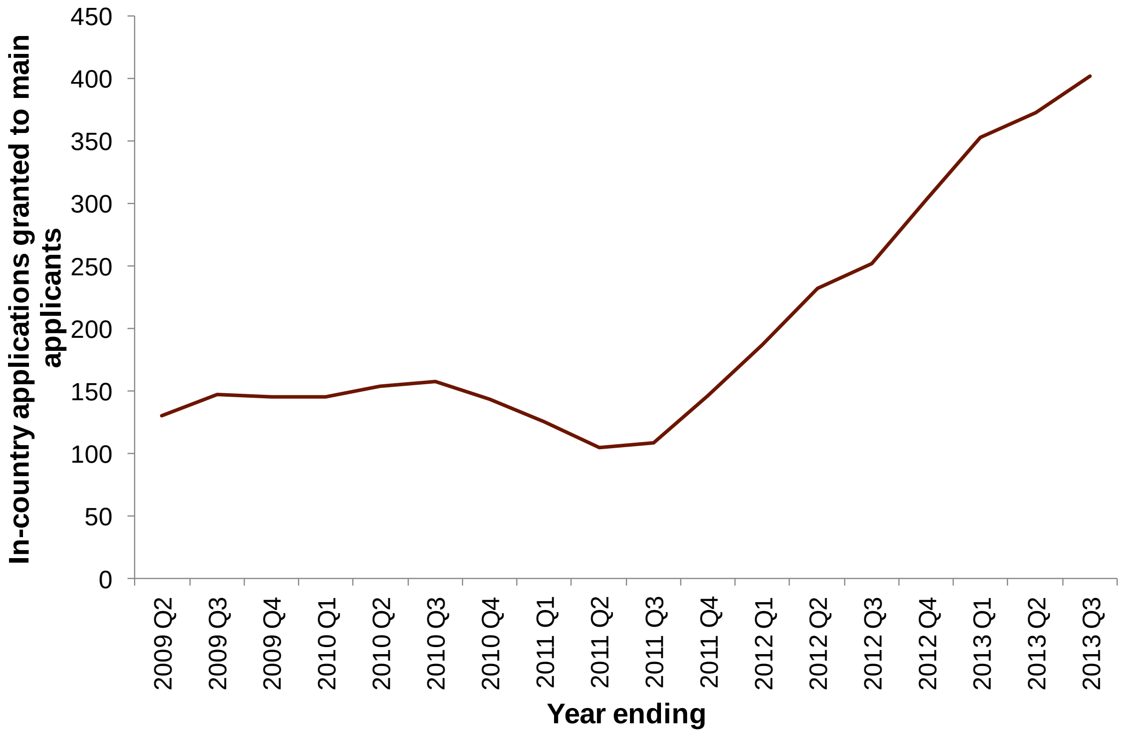
2.48 Some migrants may already be in the UK when they apply for a Tier 1 (Investor) visa. For example, migrants can apply to extend their existing Tier 1 (Investor) visas or switch to the Tier 1 (Investor) route from another immigration route. These are known as in-country applicants.

2.49 Based on our analysis of the latest Immigration Statistics released by the Home Office (2013b), there were 1,116 in-country applications from Tier 1 (Investor) route main applicants considered in the period from the introduction of the route to the end of September 2013. Of these, 1,084 in-country applications, around 97 per cent, were granted. The data show that during the four quarters to 2013 Q3, an extension of stay was granted for 402 main applicants of the Tier 1 (Investor) route (Figure 2.4). These figures include those individuals who were previously on the Tier 1 (Investor) route and extended this visa and those who were on a different immigration route and switched to the Tier 1 (Investor) route.

2.50 There appears to be a slight reduction in the number of applications from the year ending September 2010 until the year ending June 2011. In July 2010, the Home Office consulted on possible changes to the Tier 1 route. It could therefore be the case that applicants waited to see how the route changed in April 2011 before applying. Following this dip, there has been a continued sharp rise in the number of applications. This could have been for a number of reasons including the added incentives brought about by the changes in April 2011 such as increased allowable absences from the UK or displacement from the Tier 1 (General) route which closed at the end of March 2011. Alternatively, it may simply be that the increasingly higher profile of the route meant more applicants became aware of it.

Tier 1 (Investor) route

Figure 2.4: In-country applications granted to Tier 1 (Investor) main applicants, year ending 2009 Q2 to 2013 Q3



Notes: In-country applications refer to those individuals who were already in the UK when applying for a Tier 1 (Investor) visa. This includes, for example, those individuals who extend their existing Tier 1 (Investor) visa and those who switch to the Tier 1 (Investor) route from another immigration route. The figures above provide an indication of in-country applications by main applicants in a given period. The data are based on the time at which the application is made. Although an in-country application may be granted, the individual might subsequently decide not to remain in the UK for a period longer than one year. Records were restricted to exclude applications which were not granted.
Source: Home Office (2013a)

In-country applications granted to Tier 1 (Investor) main applicants by previous visa type

2.51 In-country applications for a Tier 1 (Investor) visa includes those individuals who seek to extend an existing Tier 1 (Investor) visa as well as those who switch to the Tier 1 (Investor) route from another immigration route.

2.52 Based on the article *"Extensions of stay by previous category"* (Home Office, 2013c), which covers 2011 and 2012, more than half (58 per cent) of those individuals who were granted an extension in the Tier 1 (Investor) route in 2012 were already using it. That is, 58 per cent of in-country Tier 1 (Investor) applicants were extending existing Tier 1 (Investor) visas, rather than switching from another route. This was an increase from around 31 per cent in 2011.

2.53 Furthermore, the data show that of those individuals who switched to the Tier 1 (Investor) route from another immigration route, most were switching from the Tier 4 (General Student) route. In 2012, almost a quarter (24 per cent) of in-country Tier 1 (Investor) visas were granted to individuals who were previously on the Tier 4 (General Students) route. Whilst the view expressed by stakeholders that young applicants are using the Tier 1 (Investor) route did not appear to be the case in out-of-country applications, this high proportion of switchers from the student route to the investor route may indicate that it is the case for in-country applications.

Table 2.5: In-country applications granted to Tier 1 (Investor) main applicants by top 5 previous visa types held in 2011 and 2012

Previous visa type held	2011	2012
Tier 1 - Investors	45	177
Tier 4 - General Student	50	74
Tier 1 - Post-Study	14	17
Tier 1 - Entrepreneurs	1	10
Tier 4 - Child Student	4	7
Total	*146*	*303*

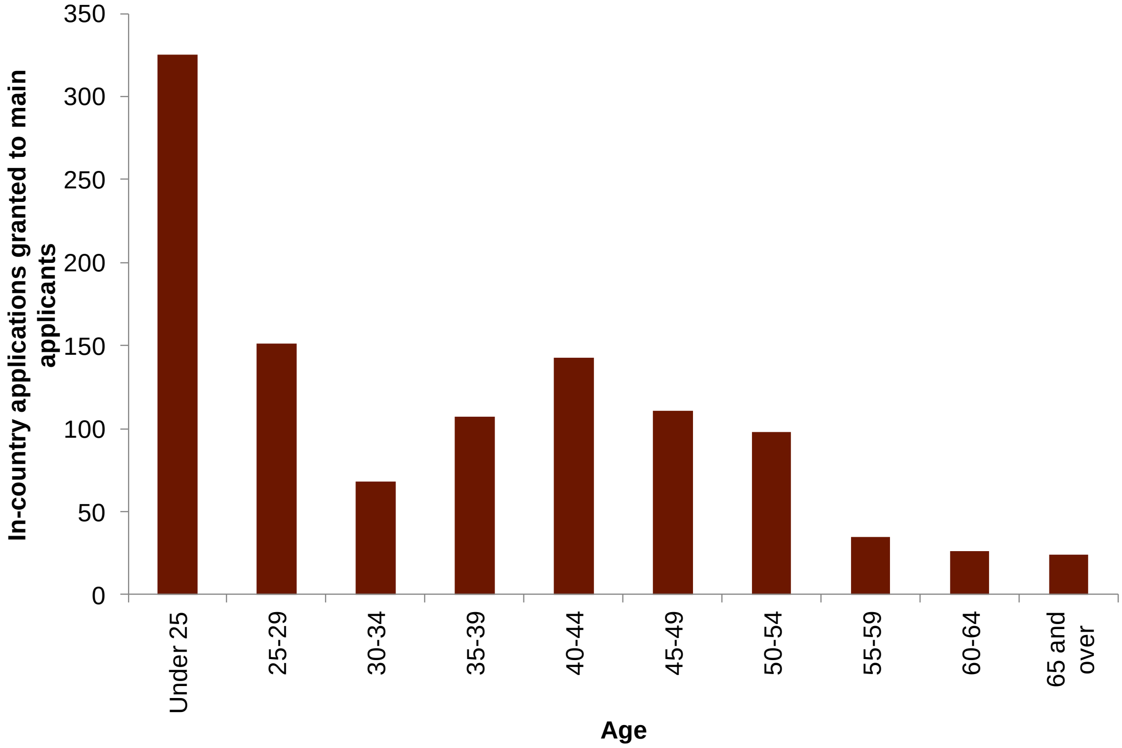
Notes: In-country applications refer to those individuals who were already in the UK when making a Tier 1 (Investor) application. The figures above show the types of visas held by in-country Tier 1 (Investor) applicants immediately prior to the in-country application being granted. This gives an indication of the number of applicants who extended existing Tier 1 (Investor) visas and those who switched to the Tier 1 (Investor) route from another immigration route in the given periods. The data are based on the time at which the in-country application was granted. Although an in-country application may be granted, the individual might subsequently decide not to remain in the UK for a period longer than one year. Records were restricted to exclude applications which were not granted. The data are presented in order of most popular previous visa type held in 2012.
Source: Home Office (2013c)

In-country applications granted to Tier 1 (Investor) main applicants by age

2.54 Once again, using the MI data, we determine the age of Tier 1 investors on the basis of the difference between date of birth and date of application. The age distribution of in-country Tier 1 (Investor) applicants differed to that of out-of-country applicants. For this group, 30 per cent of applicants granted visas (since the opening of the route) were under 25 years of age – the most predominant age group. The age band 25 to 29 years and 40 to 44 years each accounted for approximately a further 14 per cent and 13 per cent of applicants respectively.

Tier 1 (Investor) route

Figure 2.5: In-country applications granted to Tier 1 (Investor) main applicants by age, 2008 Q3 to 2013 Q3



Notes: In-country applications refer to those individuals who were already in the UK when applying for a Tier 1 (Investor) visa. This includes, for example, those individuals who extend their existing Tier 1 (Investor) visa and those who switch to the Tier 1 (Investor) route from another immigration route. The graph categorises the MI data on all main applicants for in-country Tier 1 (Investor) visas since 2008 quarter three until 2013 quarter three into age bands. Records were restricted to exclude individuals whose applications were not granted. The figures quoted are management information which have been subject to internal quality checks, but have not been quality assured. These data are provisional and subject to change.
Source: MAC analysis of Management Information data

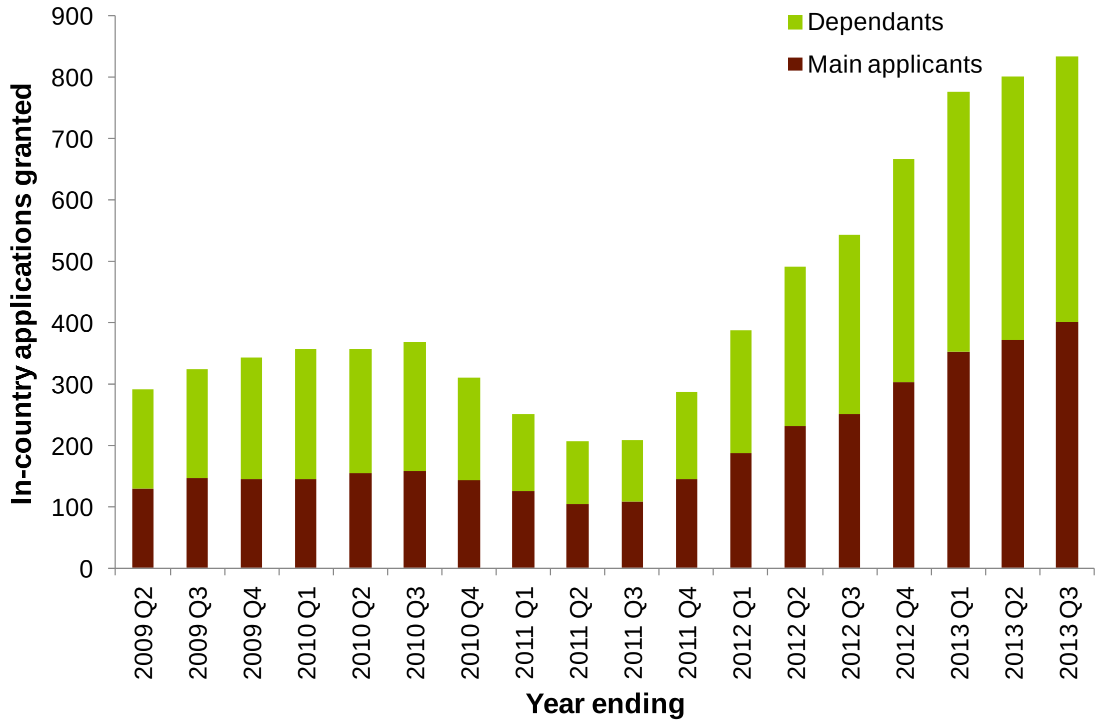
2.55 Additionally, as compared to the average age of Tier 1 (Investor) out-of-country applicants, the average age of in-country Tier 1 (Investor) applicants has been less stable. There was a particular fall, by 10 years, in the average age of such applicants between 2010 Q2 and 2011 Q4. The average age since the opening of the route was also lower, at 36 years of age.

2.56 Unlike the age distribution of out-of-country applicants, the age distribution of in-country applicants appears to support stakeholder views that young applicants use the Tier 1 (Investor) route. The large proportion of individuals in the under 25 age group can be accounted for by the data presented above which showed that individuals on the Tier 4 (Student) route are staying in the UK by switching to the Tier 1 (Investor) route.

In-country applications granted to Tier 1 (Investor) dependants

2.57 The average dependant-to-main applicant ratio for successful in-country applications (Figure 2.6) is lower (approximately 1:1) than that for out-of-country applicants (Figure 2.2). This could be explained by the fact that the age distribution for in-country applicants is skewed toward the lower end (under 25) compared to that for out-of-country applicants and hence this age group is less likely to have dependants.

Figure 2.6: In-country applications granted to Tier 1 (Investor) main applicants and dependants, year ending 2009 Q2 to 2013 Q3



Notes: In-country applications refer to those individuals who were already in the UK when making a Tier 1 (Investor) visa application. This includes, for example, those individuals who extend their existing Tier 1 (Investor) visa and those who switch to the Tier 1 (Investor) route from another immigration route. The figures above provide an indication of in-country applications by main applicants and dependants in a given period. The data are based on the time at which the application is granted. Although an in-country application may be granted, the individual might subsequently decide not to remain in the UK for a period longer than one year. Records were restricted to exclude applications which were not granted.
Source: Home Office (2013b)

2.4 Conclusions

2.58 The Tier 1 (Investor) route has been largely unchanged since it was introduced, with the only significant change being the introduction of the accelerated routes. Since the route was introduced, the overall number of individuals applying for both the out-of-country and in-country routes has been low but have been rising at a faster rate since April 2011. Russian and Chinese nationals have been the biggest users of the route, between them accounting for half of out-of-country Tier 1 (Investor) main applicants. Of those individuals who apply for the Tier 1 (Investor) route in-country, the majority (58 per cent) appear to be extending existing Tier 1 (Investor) visas, followed by around a quarter switching from the Tier 4 (General Student) route.

Tier 1 (Investor) route

2.59 The age composition of Tier 1 investors has remained fairly stable, although the average age of in-country applicants is lower at 36 years, compared to 42 years for out-of-country applicants. Furthermore, whilst the predominant age group for out-of-country applicants is 35 to 49 years, for in-country applicants it is the under 25 age group.

2.60 The ratio of dependants to main applicants for the Tier 1 (Investor) route has remained fairly stable since the introduction of the route. For out-of-country applications, there appear to be twice as many dependants as main applicants – the highest dependant to main applicant ratio of any PBS route. The dependant-to-main applicant ratio for in-country applications is lower at 1:1, which may result from the fact that a large proportion of these applicants are under 25 years of age.

Chapter 3 Assessing the economic benefit to the UK of the current Tier 1 (Investor) route

3.1 Introduction

3.1 The Government has asked us to consider *"whether the investment thresholds are appropriate to deliver significant economic benefits for the UK."* Our starting point, therefore, must be to evaluate, as far as possible, whether the Tier 1 (Investor) route as currently constituted delivers economic benefits, significant or otherwise, to the UK.

3.2 In doing so, we focus on the purpose of the route and how this is connected to two fundamental ways in which economic benefits can be realised. If the purpose of the route is to attract investment to the UK, then it follows that the main economic benefit must arise from the direct financial contribution of users of the route through the investment sum. If, however, the purpose is to attract high net worth individuals to settle, reside and, crucially, spend money in the UK, the benefits must lie in the indirect financial contribution made by Tier 1 investors. The indirect financial contribution is taken to be consumption expenditure on goods and services in the UK and the contribution of such migrants in terms of tax receipts to the exchequer. In the first part of this chapter we consider both elements in turn.

3.3 We also consider any economic costs associated with the presence of Tier 1 investors in the UK. We pay particular attention to the impact of such migrants on the distribution of scarce, or finite, resources.

3.4 In the second part of this chapter, we attempt to highlight any dynamic effects associated with the Tier 1 (Investor) route. By this, we mean any entrepreneurial, investment, or business activity undertaken by Tier 1 investors which benefits UK residents. We also briefly consider some of the longer term effects of such migrants.

3.5 Assessing the economic benefits for the UK is a difficult task, mainly because of the limited data available to us. As such, in assessing the value of the current route we rely heavily on evidence provided to us by partners.

3.2 Assessing the financial contribution of Tier 1 investors

3.6 As outlined in paragraph 3.2, we first consider the direct contribution of the investment sum required to meet the requirements of the Tier 1 (Investor) route.

Tier 1 (Investor) route

Direct Financial Contribution

3.7 Tier 1 investors are able to invest in UK Government gilts, or loan or share capital in UK registered trading companies. We assess the benefits, to the UK, of both types of investment. We also briefly examine the higher investment thresholds of £5 million and £10 million.

3.8 The Tier 1 (Investor) route requires that applicants demonstrate that they hold £1 million, £5 million, or £10 million to invest in the UK. Of this, 75 per cent must be invested in either UK Government gilts, or loan or share capital in UK registered trading companies. The remaining 25 per cent must be held in the UK and available for the applicant to use. The value of the investment must be maintained during the course of the period of leave, which means that an investor who invests £1 million must ensure that their investment is valued at £1 million for three years to obtain an extension and a further two years to qualify for settlement.

3.9 When applying for an extension or settlement, the Tier 1 investor is required to provide statements of performance for each three month period. If the value of their investment has reduced at any point, for example due to a fall in the value of their shareholding, the investor is required to ensure that their investment is valued at the required threshold by the subsequent reporting period i.e. within three months. This is most commonly achieved by making a further investment in a qualifying instrument. This can require an investor to top up their investment, should the value of that investment fall.

UK Government gilts

3.10 We do not have sufficient data to allow us to determine the proportion of Tier 1 investors who invest in gilts. However, in our discussions with corporate partners, we were told that, in practice, the majority of Tier 1 investors tend to favour investing in UK Government gilts. Tier 1 investors consider that there is less risk involved in buying UK gilts, so greater certainty of return.

> *“...the majority of our clients tend to opt for Government bonds as this provides the greater security for their investment.”*
>
> Lewis Silkin response to MAC call for evidence

> *“Gilts…have represented particularly ‘safe’ investments for Tier 1 Investor migrants who have only had to top up small amounts if at all. This creates certainty.”*
>
> *Kingsley Napley response to MAC call for evidence*

3.11 Indeed, we were told that the need to top up with additional amounts in order to ensure that the initial investment maintains its value acts as a disincentive to investing in anything other than gilts. Tier 1 investors consider that there is less risk involved in an investment in UK gilts, and that therefore, it is less likely that they will need to top up their investment.

> *"In general our clients will place their money in low risk investment vehicles...This is no accident – the structure of Home Office policy nudges migrants away from higher risk or more volatile investment types. Removing top up requirements would…remove this disincentive."*
>
> Fragomen response to MAC call for evidence

3.12 Investment in UK gilts provides a return for investors. Some partners told us that average yields on UK gilts are three per cent which, based on an investment of £1 million results in an annual coupon receipt for the investor of £30,000 before tax. Other partners told us that yields were much smaller than this. Westminster Wealth indicated that *"this summer, 2 year gilt yields stood at c.0.46 per cent, 5 year at c.1.53 per cent and 10 year at c.2.71 per cent"*. This suggests that figures such as three per cent may be at the upper limit of returns and in most cases, since inflation is higher than the potential yields, investors would see a negative real return on investment in UK gilts. Therefore, it seems reasonable to surmise that, for most Tier 1 investors, the return on their investment is less important than its stability, as this will more easily enable them to meet the requirements of the route.

> *"Tier 1 investors seek certainty and…do not wish to jeopardise their immigration status, even where this means they will get lower returns on their investments."*
>
> Kingsley Napley response to MAC call for evidence

> *"For a Tier 1 (Investor), it cannot be forgotten that…security of their qualifying investment will inevitably be a greater priority than for other investments they choose to make; this is because the consequences of losses in the investment are far greater than simple financial loss, it can result in complete disruption to their and their family's home, education and business life in the UK as they can lose their UK immigration status."*
>
> Laura Devine Solicitors response to MAC call for evidence

3.13 It is worth noting that some partners told us that investing in gilts was not completely risk free. At some point, the Bank of England Monetary Policy

Committee may increase interest rates. An increase in interest rates would mean that the price of gilts will decrease, resulting in a decline in the value of gilts held by the investor. The declining value will need to be topped up by the Tier 1 investor to ensure that they continue to meet the requirements of the route.

> *"A rise in interest rates will therefore make Gilts a less attractive investment, as their rate of return will no longer be as competitive. This will therefore cause their price to fall…This would mean a…drop for our Tier 1 investor, a hole which would then have to be filled by topping up."*
>
> Westminster Wealth response to MAC call for evidence

3.14 We considered whether investment in UK gilts provides significant economic benefits for the UK. We are not convinced that it does. Investment in gilts by Tier 1 investors is simply a loan to the Government. It is not a gift and the investor will likely sell the gilt once they obtain settlement. The Government will also pay a coupon to the holder of the gilt each year until the gilt matures, effectively meaning that the Government is paying the investor for their application. In addition, the Government is, and has been for some time, running a deficit, i.e. spending more money than that it collects in tax revenue. In order to fund this, one way the Government borrows money is by selling gilts in the capital markets. Such borrowing then adds to the total UK debt.

3.15 The annual deficit in 2012/13 was £80.5 billion (Office for Budget Responsibility, 2014a). Excluding the nationalisation of the Royal Mail's pension scheme, the deficit stood at £108 billion. This deficit is therefore serviced by borrowing in the region of £220 million to £300 million per day from the capital markets. Total debt up to 2012/13, largely exacerbated by the 2008 financial crisis, stood at just over £1,185 billion (Office for Budget Responsibility, 2014b).

3.16 At current volumes, out-of-country Tier 1 investors will contribute in the region of £500 million per annum, based on the current numbers investing £1 million in UK gilts. In practical terms, capital raised through the Tier 1 (Investor) route would barely fund two days' worth of the national deficit. The low proportion of investment in UK gilts by Tier 1 investors is not sufficient to affect the interest rates on Government borrowing. Auctions for UK gilts are also typically oversubscribed, so we do not consider that the Government is in any way reliant on borrowing from Tier 1 investors.

"When taken in comparison to the size of the Gilt market, which currently stands at £967.6 billion, it can be seen that these extra investments [by Tier 1 migrants] will create a minimal impact on the market and will do little to affect long run prices…one could be forgiven for asking whether the Government needs Tier 1 investment into Gilts, with it representing such a small element of the overall Gilt market."

Westminster Wealth response to MAC call for evidence

3.17 There is broad consensus among partners that there is little benefit to the real economy from the purchase of UK gilts by Tier 1 investors. The Government plans its spending requirements in advance and readily obtains the necessary finance from capital markets. The additional amounts from Tier 1 investors do not lead to a change in Government spending.

"Currently the economic benefit to the UK economy...is not being delivered by the direct investment of £1m, £5m, or £10m itself due to the fact the applicants tend to invest in Government Gilts…this delivers negligible value to the UK economy."

Henley & Partners response to MAC call for evidence

"...directing the investments into UK Government bonds does not bring any new, or additional investment to the UK, it merely reinforces that already planned for in HM Treasury's fiscal forward planning."

Department for Business, Innovation & Skills and UK Trade & Investment response to MAC call for evidence

"…it is perhaps worth thinking about a number of special cases. First, if UK government debt is a perfect substitute for the government debt of some other countries (e.g. the US) and the rate of return on this debt is unaffected by UK policy (because it is small in relation to the size of the US) then the demand curve for UK government debt will be perfectly elastic ($\varepsilon_d = \infty$ *) and the welfare gain from the Tier 1 investors will be exactly zero. This case might be thought to have some plausibility because the interest rates on UK and US government debt do move very similarly.*

That is one case, but it is worth considering an extreme case to make the point that the even in this case, the benefits might not be large. Suppose that one thinks that QE has reduced UK interest rates – an optimistic estimate would be that £1bn of QE has reduced interest rates by 5 basis points for 1 year. In this case a Tier 1 investor, purchasing £1m of gilts would be expected to reduce interest rates by the amount $0.05.\frac{1}{1000}$ *-basis points. If the government is issuing £150bn of new debt this lower interest rate should be applied to that which means that the benefit to the UK government from the purchase of gilts by the Tier 1 investor is given by:*

$$\frac{0.05}{100}.\frac{1}{1000}.150000 = £0.075m = £75k$$

Which is probably not a very high price to charge for the rights to UK membership. Even this is almost certainly an over-estimate for a number of reasons:

- *It focuses on the change in surplus from a reduction in interest rate for the borrower and completely ignores the fact that savers are made worse off*
- *It applies to unusual times when the government deficit is unusually large.*
- *If the Tier 1 investor sells the gilts after 5 years then the effect will then be reversed – the value of having £75k for 5 years is less than £10k "*

Professor Alan Manning response to MAC call for evidence

Loan or Share capital in UK registered trading companies.

3.18 We recognise that not all Tier 1 investors choose to invest in UK gilts. Indeed, some partners told us that their clients choose alternative investment instruments which, whilst more risky, provide greater potential for returns.

> *"...we are seeing an increasing level of interest from HNWI's looking to invest in corporate bonds, share and loan capital."*
>
> PWC Legal response to MAC call for evidence

3.19 A small number of partners provided us with an anonymised sample of the investment portfolios of such investors and we are grateful to them for doing so. This was only a small sample and should not necessarily be seen as representative of all Tier 1 investors.

3.20 Typically, due to the uncertainty around which investments qualify under the immigration rules, those Tier 1 investors not buying gilts will invest in shares or equity in FTSE 100 companies. We consider that even this type of investment provides little benefit for the UK as partners suggest that it is likely that equities are purchased on the secondary market, which does not provide an injection of capital into the relevant company in the way that a new share issue would.

Investment at the £5 million and £10 million thresholds

3.21 We were also told by partners that Tier 1 investors tend to invest at the lower threshold value of £1 million, rather than the £5 million and £10 million thresholds. They said that there was a widespread view among potential investors that the incentives were insufficient to encourage investment at a higher level. Partners said there were two reasons for this.

3.22 First, we were told that the absence of any association between accelerated settlement and accelerated citizenship was an issue. Investment at the higher thresholds will result in an individual being able to obtain settlement after two or three years rather than five years. However, regardless of the level of higher investment made, the qualification for citizenship is only reduced to five years, from six. Investment at higher levels would have more appeal were the qualifying timescales for accelerated settlement and citizenship aligned.

3.23 The second reason was that dependants do not benefit from accelerated settlement in line with the main applicant. This means that although the main applicant may qualify for settlement after two or three years depending on the level of funds invested, their dependants will only qualify after five years. We will return to this point in Chapter 4.

3.24 One further element to take into account when considering the extent to which Tier 1 investors make a direct contribution to the UK, is that applicants are able to source the funds for their investment by way of a loan from a UK registered financial institution. Permitting the acquisition of funds in this way provides little or no value to the UK economy as it is simply a transfer of funds between two actors within the UK economy, rather than an investment of new funds. Partners told us that, in practice, this provision is rarely, if ever, used due to the absence of any UK regulated financial institutions willing to lend sums to the value of £1 million or greater to individuals with little or no credit history in the UK.

3.25 Taking account of the issues outlined above, we consider that the direct contribution of Tier 1 investors, through their initial investment, provides little benefit for the UK. We now look at whether Tier 1 investors deliver benefit to the UK through their indirect contributions.

Indirect financial contribution

3.26 The indirect contribution of Tier 1 investors can be divided broadly into two components: consumption expenditure and contribution to the exchequer. We consider both in turn. It is important to make clear at the outset that the indirect contribution of Tier 1 investors may be additional expenditure, in that they are purchasing goods and services that would not otherwise be produced or sold. Equally, this expenditure could simply substitute that which would have been spent by other consumers, either within the UK or via exports.

(i) Consumption expenditure

Given the limited data available to estimate the levels of consumption expenditure by Tier 1 investors, we were, to a significant extent, reliant on the evidence we received from partners.

Education

3.27 During our discussions with partners, it became evident that the most tangible element of consumption spending was with respect to Tier 1 investors' use of the independent education sector. A number of partners told us that the high quality independent education and further education available in the UK was the greatest incentive for Tier 1 investors choosing the UK.

> *"Many of our clients are choosing the UK as a destination for the education of their children…They will often send their children to exclusive schools and educate them to a graduate level in the country."*
>
> CS Global Partners response to MAC call for evidence

> *"For our investor clients with children one of the primary drivers for all is the education system in the UK."*
>
> Laura Devine Solicitors response to MAC call for evidence.

3.28 Partners told us that Tier 1 investors educate their children almost exclusively through the independent sector. We were told that the decision on which school to send their children to will be the most important determinant of where they rent or purchase a property. Tier 1 investors will typically align the timing of their move to the UK with the timing of their children entering secondary school.

"All our investor clients with children of school age use private education."

Laura Devine Solicitors response to MAC call for evidence

"The investors we see are generally families where the children are under 18 and attending a private school."

Speechly Bircham response to MAC call for evidence

3.29 The implication of this is that investor migrants, or at least their families, intend to reside in the UK at least until such time as the children have finished secondary education. This could mean that they spend a minimum of seven years in the UK, assuming that the children leave school upon completion of A-Levels.

3.30 Home Office Management Information data on out-of-country Tier 1 investors indicate that in the year ending September 2013, 638 visas were issued to dependant children of Tier 1 investor migrants, the majority of whom, according to the evidence we received, will enter the independent education sector. There were around 8.8 million children in primary and secondary education in the UK in 2010. Based on data for just England and Wales, approximately seven per cent of children in primary and secondary education, or 564,000, attended an independent school (Bolton, 2012). In this context, the contribution of Tier 1 investors to the overall sector is small (less than one per cent) of total privately educated children.

3.31 The Independent Schools Council (ISC) estimates that within the UK independent sector there are around 2,600 schools, of which 1,200, or 45 per cent are ISC member schools (Independent Schools Council, 2013a). The schools they represent educate around 80 per cent of those pupils who attend independent schools in the UK. The ISC conducts an annual survey of its members which captures data on, for example, income and pupil numbers. The survey report by the ISC in 2013 indicated that there were 25,441 non-British students whose parents live overseas attending ISC schools. The ISC estimates that overseas pupils contribute a total of around £750 million, through fee payments, to the UK economy each year (Independent Schools Council, 2013b).

3.32 Following the ISC figures, if we assume that around 30,000 overseas students attend an independent school in the UK per annum (some being in the 20 per cent that ISC do not represent), contributing £750 million to the UK economy by way of fees, we extrapolate that average fees are around £25,000 per student per school year. This average figure does not differentiate between those pupils who attend independent schools on a boarding basis and those who do not. Using the 638 figure for the number of dependant children of Tier 1 investors, we estimate an overall contribution to the UK economy by all Tier 1 investors of around £16 million per year by way of independent school fees.

3.33 This is, of course, a very rough estimate and should be seen as illustrative of the scale of economic contribution from this source. Our call for evidence asked partners to provide evidence on their expenditure on independent education. We received very few responses in respect of this request. However, we did speak to one Tier 1 investor who told us that his expenditure on private education totalled £23,000 per annum. Similarly, Kingsley Napley told us that, on average, their clients will spend between £20,000 and £30,000 per child per year on education provision. Newland Chase also provided evidence that one of their clients spends around £30,000 per year in the independent education sector.

"2 of the children are in private education...paying a sum of no less than £30,000 per annum."

Newland Chase response to MAC call for evidence

3.34 We think it reasonable to assume that our estimate of £25,000 per student per school year, based on ISC data, is broadly correct and in line with what partners tell us about expenditure on education by Tier 1 investors. We do not have sufficient data to ascertain whether this expenditure is additional expenditure, and thus analogous to an educational export. Given the small numbers involved, it may be reasonable to infer that the independent education sector would expand to meet the additional demand of Tier 1 investors. However, it may equally be the case that the children of Tier 1 investors are simply replacing the children of UK residents.

3.35 That said, given the proportionately small number of Tier 1 investor dependants attending the independent sector, it seems readily apparent that the main beneficiaries of this exchange are the Tier 1 investors and their dependants.

Professional Services

3.36 A second element of consumption spending to be considered is expenditure on professional services, such as legal advice, investment management and accountancy services. A significant number of partners that contacted us are employed in such sectors. They told us that users of the Tier 1 (Investor) route make considerable, and ongoing, use of their services, both in terms of their expertise and their ability to refer clients to other service providers or sources of information.

3.37 With respect to the investment advisory and wealth management sector, we were told that such firms typically charge clients between 0.5 per cent and one per cent of the investment sum per annum, as well as an additional one to two per cent introductory fee.

> *"The financial service providers managing these funds are typically receiving 0.5 to 1.0% per annum in management fees and in some cases there are one off set up fees to introducers or advisors of between 1-2%."*
>
> Newland Chase response to MAC call for evidence

3.38 We infer, then, that if in a given year around 500 Tier 1 investors used the services of an investment or wealth advisor, and invested £1 million, they would have contributed somewhere between £2.5 million and £5 million to the sector that year. Or, taken a different way, each Tier 1 investor will, on average, incur fees of anything between £5,000 and £10,000 per annum. Our estimate, and we make clear that it is simply an estimate, broadly reflects the evidence provided by Kingsley Napley which estimated that an average Tier 1 investor will spend around £10,000 per annum on such services.

3.39 Tier 1 investors also make use of legal services, both to assist with their initial application and throughout their time in the UK, and accountancy services, particularly if they have chosen to invest in share or loan capital in UK trading companies. We received very little evidence with respect to the fees charged for such services, although Kingsley Napley indicated that average expenditure on legal services amounted to around £40,000 per annum.

3.40 Combining these figures indicates an average expenditure on professional services by Tier 1 investors of around £50,000 per annum. Given that the services provided to Tier 1 investors would be additional, and therefore analogous to an export, it is likely that the UK does benefit from this type of expenditure.

General living expenditure

3.41 Partners told us that, aside from expenditure on education and professional services, Tier 1 investors spend considerable sums of money in the local economy. The examples we were given were of Tier 1 investors and their families shopping at high end retail stores and purchasing luxury items for themselves and family and friends in their country of origin.

Tier 1 (Investor) route

> *"Clients buy luxury goods…shop at high end retail stores and dine at Michelin star restaurants, drive luxury cars."*
>
> CS Global Partners response to MAC call for evidence

> *"Tier 1 (Investor) migrants also spend substantial amounts within the UK on luxury goods and services."*
>
> PWC Legal response to MAC call for evidence

3.42 In the absence of reliable data, we asked partners to provide indicative examples of the level of spending by Tier 1 investors. Some evidence was forthcoming which attempted to provide an average range of spending, while some provided atypical examples where spending was relatively high. Table 3.1 below provides an illustration of the range of expenditure of Tier 1 investors, based on evidence submitted by partners.

Table 3.1: Tier 1 investors' general living expenditure ranges

Partner submitting evidence	Monthly expenditure	Annual expenditure
Fragomen	£5,000 - £15,000	£60,000 - £180,000
Kingsley Napley	c£21,000	£250,000
Mishcon de Reya	Up to £100,000 (79 per cent of clients [19] surveyed)	Up to £1.2 million
	£100,000 - £200,000 (21 per cent of clients [5] surveyed)	£1.2 million - £2.4 million
Investor A	£15,000 - £25,000 (whilst in UK – c 2-3 months per annum))	£80,000 - £120,000
	£5,000 (whilst not in the UK)	
Investor B	c£4,333	£52,000

Note: Investor A and Investor B are individual investors who provided evidence.
Source: MAC analysis of partner evidence

3.43 The evidence we received suggests a significant variation in the level of expenditure by Tier 1 investors, ranging from £4,500 per month, or £52,000 per annum at the lower end and up to £200,000 per month, or £2.4 million per annum, at the higher end. With this information alone, it is not possible to identify an average or typical range of general expenditure and we cannot determine the proportion of this expenditure which is additional expenditure as opposed to substitution.

3.44 Partners told us that, in the main, the level of general living expenditure is not significantly affected by the absence of the main earner in cases where the main earner is not ordinarily resident in the UK.

"The migrant does not need to be physically present in the country for their spending habits to continue…items such as running the household; professional services; luxury goods; shopping; and other expenditure…continue."

Mishcon de Reya response to MAC call for evidence

"...our investor clients informed us that absences have a limited impact on expenditure, particularly those with dependants; even when travelling they continue to have expenses in the UK."

Laura Devine Solicitors response to MAC call for evidence

3.45 One investor provided evidence to suggest that his general living expenditure was between three and five times greater whilst he was in the UK than when he was not, but overall we received very little evidence to enable us to make any findings on Tier 1 investors' general living expenditure.

Property/Housing

3.46 The decision on where to purchase or rent property is often dependant on where the individual's child will attend school as discussed in paragraph 3.28. Tier 1 investors will often, but not always, choose to live in a property in London or elsewhere in the South of England. Partners told us that Tier 1 investors make a significant contribution to the property market, particularly in the top-end market.

"...the investors we see are generally families where the children are under 18 … They buy a property in or around London for the family to reside in."

Speechly Bircham response to MAC call for evidence

"All the clients for whom we manage the Tier 1 portfolios are classified as HNW individuals... all have purchased large UK properties."

Vestra Wealth response to MAC call for evidence

3.47 Partners repeatedly cited the acquisition of property in the UK as an economic benefit of the Tier 1 (Investor) route. However, we are sceptical of this argument for the following reasons.

Tier 1 (Investor) route

3.48 First of all, it is necessary to distinguish demand-side (property purchases) from supply-side (property development) effects. The Barker Review of Housing Supply in 2004 highlighted that rising house prices in the UK were being driven partly by population and income growth, but mainly by lack of housing supply, itself hindered by a number of factors including planning constraints (Barker, 2004). The Government's Housing Strategy for England has noted that new build housing completions were only meeting half the expected annual growth in demand (Her Majesty's Government, 2011). With demand for housing exceeding supply – and considerably so in certain parts of the UK, including London – any further increase in demand will be reflected in rising property prices. In such cases, the property will almost certainly be sold even in the absence of the Tier 1 investor buyer.

3.49 Partners told us that there would be tax benefits for the UK as a result of Stamp Duty Land Tax (SDLT). As such the buyer would be required to pay up to 7 per cent of the property value to the Exchequer. However, if the sale would have gone ahead anyway, this is merely a straight substitute for tax that would have been payable by another buyer. Only in the case where migrant investors have higher housing turnover might there be any net gain here.

3.50 Based on the evidence we received from partners, Tier 1 investors are likely to purchase property at the higher end of the market.

> *"In our experience, it is common for Tier 1(Investor) migrants to purchase real estate in excess of £2 million; however we have known of many property purchases in excess of £5 million and once in excess of £50 million."*
>
> PWC Legal response to MAC call for evidence

3.51 According to research by Savills PLC, a global real estate services provider, of the 97,000 residential sales in Greater London in 2012, around a third were in the sought-after prime London areas (Savills, 2013a). Around a fifth of these transactions were new build sales, with the rest re-sales of existing housing stock. Almost 40 per cent of re-sales and around three-quarters of new build sales were by international buyers, the latter mostly for investment purposes.

3.52 Clearly, Tier 1 investors only account for a small proportion of residential house purchases by foreign nationals. Their impact on residential property prices would therefore also be proportionately small, though still negative. This is allowing also, as the evidence suggests, for multiple property purchases by Tier 1 investors.

"Tier 1 (Investor) migrants will often buy multiple properties, namely for their families. We note that one client bought a property for themselves, their parents and 3 of their dependent children who had attained the age of 18 and each property was worth over £2 million, totalling over £10 million."

PWC Legal response to MAC call for evidence

3.53 Higher house prices benefit existing home-owners by increasing their wealth. This is at the expense of those looking to buy housing as they must now pay more and, as we assume here, there is no associated wage effect. Therefore there are distributional impacts to consider too (Civitas, 2014). In the absence of detailed data we are not able to conclude whether rising house prices would result in an overall net gain or loss for UK residents.

"How are UK citizens affected by this change? If one is a worker who does not own any housing, the impact of Tier 1 investors must be negative – the wage does not change but the price of housing rises. But some UK citizens are also owners of housing...there is no net benefit or loss to UK citizens from the Tier 1 investors but there are distributional effects – workers lose and home-owners gain."

Professor Alan Manning response to MAC call for evidence

3.54 Finally, it is undoubtedly the case that migrant investors buying property here will result in an inflow of capital to the UK. Although not recorded in the UK balance of payments as an export, this would still potentially result in higher GDP. It is estimated that approximately £37 billion flowed into London property from overseas buyers between 2006 and 2012 (Savills, 2013b), though that resulting directly from Tier 1 investors will be a fraction of this. However, this economic benefit will be offset to some extent in those cases where the proceeds of the sale leave the UK, for instance where the seller moves abroad. As London has a relatively high share of non-UK born residents it is not unreasonable to assume the outflow of capital may be significant.

3.55 We conclude that the purchase of residential property by Tier 1 investors involves both economic costs and economic benefits. Where this leads to an injection of capital into the UK economy there is a positive impact. Equally, though, the resulting higher house prices and a redistribution of these gains in favour of existing UK homeowners may represent a considerable cost.

3.56 There may however be some economic benefits on the housing supply side. A number of partners suggested that investment in (residential) property development should be considered within the scope of eligible investments to qualify under the Tier 1 (Investor) route. In principle this should boost the supply of new housing and increase the overall housing stock (thereby helping to ease price pressures). There is certainly potential here to provide added economic benefits, though further consideration would need to be made about the type and location of any new build as a result of investment by Tier 1 migrants and the resulting benefits for UK residents.

Healthcare

3.57 As is the case with the property market, increased demand on finite resources in healthcare is primarily an issue of distribution. With respect to Tier 1 investor migrants in particular, partners told us that such migrants and their dependants predominantly make use of private health care services, so do not add to the demand on the NHS.

> *"All our investor clients to our knowledge have relied on private medical insurance and do not use the NHS."*
>
> Laura Devine Solicitors response to MAC call for evidence

3.58 That said, Mishcon de Reya's survey of their clients indicated that 63 per cent [15] hold private healthcare policies or insurance. This may suggest that a significant minority of Tier 1 investors do make use of NHS services. In their response to our call for evidence, PWC Legal told us that part of the attraction of the UK is that it has *"an established, well regarded education system…and state funded healthcare to a very high standard, although in our experience HNWI's (High Net Worth Individuals) utilise private medical care".*

3.59 On balance, we consider that any additional demand on the NHS from Tier 1 investors is likely to be small. We broadly accept that Tier 1 investors are likely to source healthcare through the private sector, some through the acquisition of health insurance, and others who will pay for health care services as required. It could be argued that the acquisition of private healthcare in itself has a positive effect on the UK economy, in that UK based private healthcare providers will benefit from increased uptake of their products. However, we are not able to determine the proportion of Tier 1 investors who obtain premiums from UK based providers, rather than foreign based providers. Equally, however, it could be the case that the increasing prevalence of those holding private medical insurance may result in resources being diverted from public healthcare to private.

Other public services

3.60 The presence of Tier 1 investors in the UK will increase demand on other public services, such as transport and policing. However, we are not able to estimate the degree to which such services are used, though inevitably given the number of Tier 1 (Investor) migrants and their dependants the impact is likely to be small.

(ii) Contribution to the Exchequer: Taxation

3.61 The second indirect contribution considered was that of Tier 1 investors to the exchequer through taxation payments. We would expect that Tier 1 investors would register themselves as non-domiciled for taxation purposes. Individuals who register as non-domiciled in the UK, declare their intention to remain domiciled in another country and not make the UK their permanent home. As a result, they enjoy favourable taxation treatment. Non-domiciled status provides for the individual to only pay income and capital gains taxes on their UK based income and gains. Any overseas income and gains are only taxed where the individual brings, or remits, such funds to the UK. As such, non-domiciled individuals are often referred to as remittance-based tax payers or Non-Doms.

3.62 We were told that Tier 1 investors make a significant contribution to the Exchequer through the payment of both direct and indirect taxes. Kingsley Napley estimate that an average Tier 1 investor will contribute £152,000 of taxation payments on a one-off basis and around £47,800 in taxes each year, as outlined in Table 3.2 below. This table also includes our own assessment as to whether these tax payments may be considered a benefit to the UK Exchequer.

Table 3.2: Estimated total UK spend, and taxation (direct and indirect) by Tier 1 (Investors) per annum (p.a.)

Item	Total UK spend	Direct/Indirect UK tax	MAC assessment of whether benefit to the UK Exchequer
UK Gilt (3% Yield p.a.)	£1,000,000*	£6,000 (income tax)#	✓
General living expenses	£250,000	£25,000 (VAT)+	✓
School fees (3 children)	£60,000 to 90,000	^	-
Legal services fees (immigration, property, tax)	£40,000	£8,000 (VAT)	✓
Wealth Management	£10,000	£2,000 (VAT)	✓
Employees	£30,000	£6,800 (PAYE and NI)	?
Total	£1,390,000 to £1,420,000	£47,800	
One-off expenditure and associated taxation payment			
House purchase (£2m+)	£2,000,000	£140,000 (SDLT)	X
Car purchase	£60,000	£12,000 (VAT)	✓
Total	£2,060,000	£152,000	

Notes: Where appropriate, the Direct/Indirect UK tax estimates are annualised versions of estimates provided by Kingsley Napley LLP. # Based on income of £30,000 per annum, taxed at 20%. + Based on VAT at 20%, with half of expenditure being on goods subject to VAT. ^ School fees are not typically subject to VAT. * Signifies one-off expenditure/taxation payment. SDLT – Stamp Duty Land Tax; VAT – Value Added Tax; PAYE – Pay as you earn income tax; NI – National Insurance contribution.
Source: MAC analysis based on estimates provided by Kingsley Napley LLP

3.63 The evidence we received from other partners with respect to taxation was less detailed than that provided by Kingsley Napley. Indeed, most partners focussed on Stamp Duty Land Tax (SDLT) as being the single biggest contribution by Tier 1 investors.

"Housing in particular is a great source of tax revenue for the UK. One of our clients told us he has spent £14 million in properties in 3 years. Using an aggregated stamp duty rate of 5%, that's £700,000 of income for HMRC."

Fragomen response to MAC call for evidence

> *"As a result of property purchases, applicants pay, on average, £150,000 in stamp duty to HMRC."*
>
> Henley & Partners response to MAC call for evidence

3.64 We do not have sufficient data to verify the estimated taxation payments provided by partners. We have chosen to accept that they are broadly accurate and we concur with the assertion that value added tax (VAT) payments by Tier 1 investors represent a net benefit to the Exchequer. Expenditure in this way is, in all likelihood, additional expenditure which would not otherwise occur.

3.65 However, with respect to stamp duty land tax (SDLT), we consider that there are substitution effects. As we discuss at paragraph 3.50 above, the purchase of residential property by Tier 1 investors does not provide a benefit to the UK. Rather, it is an issue of distribution. Therefore, it follows that the same applies to SDLT. Were Tier 1 investors not purchasing property, and paying SDLT, other individuals would. Whilst the purchase prices of the properties concerned, and associated SDLT, might possibly be marginally lower than they are at present, it remains the case that the Government would continue to receive most or all of the SDLT payments.

3.66 We are also unconvinced with respect to the issue of income tax and National Insurance contributions associated with Tier 1 investors and their employees. If not employed by Tier 1 investors, chauffeurs, nannies and cleaners would mostly be employed elsewhere, and therefore contributing to the Exchequer.

3.3 Assessing the potential dynamic effects of Tier 1 investors

3.67 Discussions with partners suggested that in addition to the direct and indirect expenditure discussed above, some Tier 1 investors generate positive dynamic effects for the UK by undertaking activities that supplement productive efficiency in the economy.

> *"...investors can bring with them productivity enhancing ideas, or business practices, or entrepreneurial attitudes, which have originated in a different culture, and which may be new to the UK."*
>
> Department for Business, Innovation and Skills and UK Trade and Industry response to MAC call for evidence

3.68 In a recent report on the economic and labour market impacts of Tier 1 entrepreneur and investor migrants, which we commissioned from the National Institute of Economic and Social Research (NIESR) and the Migration Observatory, the authors highlight the potential positive spillover effects that could arise from Tier 1 investors. These include knowledge and expertise and a potential to strengthen cross-country relations via improved networks.

3.69 We therefore looked at:

- Business/entrepreneurial activity undertaken by Tier 1 investors;
- Job creation by Tier 1 investors;
- Network effects that Tier 1 investors generate;
- Additional investments made beyond those required for visa purposes; and
- Philanthropic activity undertaken by Tier 1 investors.

We also considered the potential longer term effects of the Tier 1 (Investor) route.

Business/entrepreneurial activity

3.70 The NIESR and Migration Observatory report on the impact of Tier 1 investor migrants makes the point that whilst Tier 1 investors often opt for the investor route (as opposed to the entrepreneur route), many are interested in entrepreneurial activity in the UK. Their report states that such migrants use the investor route to give them some time to explore business opportunities in the UK; something which is restricted under the entrepreneur route. In interviews with seven investor migrants, they found that *"A number of investors were keen to start business in the UK and these were at various stages of development...a number were actively looking for opportunities"*.

3.71 A similar theme emerged during our conversations with partners – many applicants use the Tier 1 (Investor) route to avoid the restrictions placed upon migrants using the Tier 1 (Entrepreneur) route and to have more time to understand the UK market before setting up a business, unlike under the entrepreneur route where they have to show evidence of starting a business within a relatively short time. If this is the case, this might generate productivity gains for the UK if this class of applicant has strong entrepreneurial experience gained outside the UK. They can help to increase output and share international expertise. In addition, there may be some indirect financial benefits such as corporate taxes paid by the business the Tier 1 investor sets up.

3.72 There is some evidence from partners which suggests that migrant investors do undertake entrepreneurial activities.

> *"...[one client] has set up a bridal shop near Oxford Street...[another client] has started her own business in tourism offering prestige travelling service for high net worth individuals visiting the UK."*
>
> London & Capital response to MAC call for evidence

3.73 However, such activity appears to happen on a limited scale. We received evidence of only a small number of instances where investors have set up a business in the UK, and the Management Information data do not provide any information as to the prevalence of such activity. In addition, it appears that whilst some investors have plans to set up business in the UK in the future, many simply maintain business interests in their home countries or in other economies abroad.

Job creation

3.74 Another consistent theme that both the NIESR and the Migration Observatory research and partners have raised is that migrant investors generate jobs in the UK. This appears to be done in two ways. Investors set up businesses in the UK and thereby generate employment in the UK labour market. Mishcon de Reya surveyed 24 of its clients and found that of these, *"29% [7] have businesses which employ between 10 and 100 people".* Other partners also submitted evidence of investors operating businesses.

> *"Some investor clients generate employment in the UK in their own businesses or others they invest in."*
>
> Laura Devine Solicitors response to MAC call for evidence

3.75 The second, and more prominent, way in which migrant investors can create employment in the UK is by hiring personal staff such as nannies, house keepers and chauffeurs. NIESR and the Migration Observatory highlighted in their report that "*a number [of investors] were employing staff, hiring sub-contractors, or felt they had generated employment. This extended beyond businesses to personal expenditure. For example, an investor who had spent almost £1 million renovating his new home pointed out that he had kept five builders in employment for a year."*

> *"Most of our investor clients create employment in the UK. Virtually all our clients have a number of personal staff in the UK; typically this includes nannies, house keepers, chauffeurs, gardeners, PA's."*
>
> Laura Devine Solicitors response to MAC call for evidence

3.76 Whilst we accept that investors employ personal staff, it is difficult to establish whether this generates additional benefits for the UK. In comparison to the jobs created by a new business, it is possibly more likely that the domestic jobs created are more easily substitutable. That is, if these employees were not hired by the migrant, they could more easily find similar employment elsewhere. Therefore, assuming this is the case, whilst the proportion of migrant investors hiring personal staff may be relatively large, the benefit is not immediately evident.

“It is perhaps taken as obvious that anyone spending money in the UK must be ‘creating jobs’ – such a view would not be supported by economic theory.

In many ways, such a view is simply the flip side of the ‘lump of labour’ fallacy which holds that an increase in the immigration of workers must cause job loss for natives because there is a fixed number of jobs driven by demand. It is a fallacy because – in the medium to long-run at least – employment is determined by supply-side more than demand-side factors.

Similarly the view that the immigration of consumers must add to jobs because they are adding to demand is fallacious for the same reasons – it is wrong to assume the level of employment is determined by demand alone.”

Professor Alan Manning response to MAC call for evidence

Network effects

3.77 The NIESR and Migration Observatory research suggests that migrant investors bring significant positive network effects to the UK, “*skilled migrants are likely to have both better information on business opportunities, better social capital and professional networks*”. They note that, over time, such migration can alter the level and pattern of trade and Foreign Direct Investment (FDI) flows between host and home countries. NIESR and Migration Observatory’s research also found that migrants bring improved international market knowledge and that high-skill diasporic communities can facilitate better access to international markets by lowering transaction costs.

3.78 Some partners also expressed the view that migrant investors could provide invaluable network opportunities, thereby creating significant benefits for the UK.

"Investors bring with them connections to markets that are rapidly growing and developing ties, especially to their own country. They are often doing business in several different countries, and tend to have interests in several different markets"

CS Global Partners response to MAC call for evidence

3.79 However, there is very limited evidence demonstrating that this actually happens in practice. The Tier 1 (Investor) route as currently constituted does not incentivise investors to invest in a UK company and be actively involved in supporting that company. The majority of Tier 1 investor migrants invest in UK gilts which means the opportunities to exploit such networks and realise the associated benefits are currently limited.

3.80 That said, it could be possible that access to foreign markets may still improve simply by the investor maintaining ties with their home country, as is suggested by some partners. However, it is not possible to assess the extent to which this happens.

"...investors will usually frequently visit their home countries, taking back UK products to their home country and bring back products from it. This increases trade between the country of origin and the UK and creates a market for foreign goods both at home and abroad. This is particularly valuable with linking countries that do not have close ties to the UK."

CS Global Partners response to MAC call for evidence

Additional investments

3.81 Whilst it is apparent that the majority of Tier 1 (Investor) migrants invest the minimum amount required, a number of partners have told us that some migrants make further investments in the UK in addition to those required for the Tier 1 visa.

"Many invest in business in the UK (over and above investment in shares to meet Tier 1 criteria), stimulating business growth and productivity, particularly at a time when adequate bank lending remains inaccessible for many businesses."

Laura Devine Solicitors response to MAC call for evidence

Tier 1 (Investor) route

> *"He intends to purchase a stake in a secondary school in the private sector for £2 million and to invest fully the remainder of the £4 million in the UK."*
>
> Newland Chase response to MAC call for evidence

3.82 Investments in UK businesses beyond those which are required to meet the Tier 1 requirements would add to UK business growth. Whilst there is no evidence of this happening on a significant scale, additional investment will provide benefit to the UK.

Philanthropic activities

3.83 We were also told that some Tier 1 (Investor) migrants contribute significantly to charities and that others would be willing to donate significant amounts to worthy causes which are considered socially important, such as NHS Trusts and universities. Such donations would add benefit, not least because they are gifts rather than loans.

3.84 Again, there is limited evidence that this happens on a large scale. However, partners who surveyed their clients did find some evidence of it. Mishcon de Reya found that 42 per cent [10] of their 24 clients made donations to UK charities.

> *"Our investor clients are usually significant contributors to charities, patrons of the arts and support other community projects/activities (60% of respondents to our survey)."*
>
> Laura Devine Solicitors response to MAC call for evidence

Longer term effects

3.85 A large number of migrants coming to the UK through the Tier 1 (Investor) route bring their families to the UK, including their children. These children are raised and educated in the UK and may become anglicised as a result of this. This may provide longer term benefits as the children are likely to maintain a connection with the UK and potentially contribute to the UK economy at some point.

> *"These children grow up to become professionals, with established links and networks in the country and are likely to work for at least some period in the UK."*
>
> CS Global Partners response to MAC call for evidence

3.86 More generally, the existence of the route demonstrates that the UK is open for business. Investors recognise that the UK is a sound place to conduct business and many partners indicated that Tier 1 investor migrants recommend the UK to other potential migrants after having come through the Tier 1 (Investor) route. It was argued that the existence of the route expressed a positive message about the UK economy.

"83% (20) [of investor clients surveyed] have recommended to friends and acquaintances that they come to the UK."

Mishcon de Reya response to MAC call for evidence

3.87 Having considered the available literature, the findings from the NIESR and Migration Observatory report, and the evidence from partners, we surmise that there are potential dynamic effects and productive efficiency gains that Tier 1 (Investor) migrants bring to the UK, although we are not able to quantify this. The nature of some of these dynamic effects is such that even if only a small number of investors undertake some of these activities, the resulting productivity gains could be substantial. In which case, the route's importance lies in providing a mechanism for the UK to obtain those benefits, rather than the individual concerned choosing to reside in a competitor nation such as the US or Germany.

3.4 Conclusions

3.88 In this chapter, we considered whether the Tier 1 (Investor) route was delivering economic benefits for the UK and its residents. It is clear that the direct investment itself is not of great benefit to the UK. Rather, the benefits of the route appear to lie in the indirect consumption by the investor, and associated taxation, predominantly value added tax.

3.89 There may also be some benefit with respect to productive efficiency or dynamic effects, though this is difficult to quantify. However, it is important to note that the Tier 1 (Investor) route is neither designed to incentivise such activity, nor the best way of doing so. Reform of other routes, for example the Tier 1 (Entrepreneur) route or the (now closed) Post Study Work (PSW) route would provide alternative methods of incentivising such activity.

Chapter 4 Key factors affecting the demand for Tier 1 (Investor) route

4.1 Introduction

4.1 The commission from the Government asked us to consider *"whether the investment thresholds are appropriate to deliver significant economic benefits for the UK"*. Chapter 3 attempted to identify and, as far as possible quantify, whether the presence of Tier 1 investors and their families in the UK is of benefit to the UK. However, in assessing the benefits of this route we must be careful to distinguish between those benefits that accrue to the migrant (and their families) and those that accrue to UK residents.

4.2 The analysis described in this report shows that the economic benefits of this route to the UK are not obvious. In this chapter, we consider how changes to investment thresholds might impact on the demand for the route among potential investors both in theory and in practice. In assessing the threshold levels and potential consequences of any changes, we need to understand the key drivers behind the demand for the Tier 1 (Investor) route. Partner responses to our call for evidence suggest that the demand is driven more by non-financial factors than any desire to maximise returns on financial investment in the UK.

4.3 We therefore consider two broad factors which are important in influencing demand for Tier 1 Investor visas, namely:

- the investor's primary reasons for coming to the UK under this route; and
- the attractiveness of the UK Tier 1 (Investor) visa relative to what other countries offer.

4.4 Due to the limited availability of data in this area, in assessing the likely impacts of the factors listed above we rely primarily on evidence provided by partners.

4.2 Sensitivity to thresholds

4.5 The minimum threshold for a Tier 1 (Investor) visa is currently £1 million, with the option of achieving accelerated settlement status by investing

either £5 million or £10 million. The £1 million threshold has been unchanged since its introduction in 1994, whilst the higher threshold levels were introduced in 2011. During discussions with partners, it has become apparent that the vast majority – between 90 and 100 per cent - of applicants invest the minimum threshold requirement of £1 million. There is a lack of data available on those applicants who have invested £5 million or £10 million, as investors are required to declare this only at the point of applying for Indefinite Leave to Remain (ILR). In practice this means that as the £5 million and £10 million options were introduced in April 2011, it is only since the latter half of 2013 – i.e. two years after the initial application - that data are becoming available for those investing £10 million. Similarly information on those investing £5 million will only become available from mid-2014 onwards – three years after initial application.

4.6 The views submitted by partners on whether the thresholds should be revised are mixed. Whilst some suggest that there should be an increase, at least in line with inflation, others state that if the route currently provides a net benefit to the UK, then there should be no need to revise the thresholds.

"As regards the threshold set in the early 1990s, while the £1 million still appears reasonably significant in investment terms, based on the jobs that may be created as a result of this, uplifting the figure for inflation would ensure that the cash return would generate the same purchasing power now as 20 years ago. This suggests that the threshold should be at least 60% higher now (using GDP deflator). On a rough basis then this would suggest that the threshold could be doubled to ensure that the cash return from the investment is the same in real terms."

Head of the Northern Ireland Civil Service response to MAC call for evidence

"Our view is that, in theory, the level of the threshold should be set such that there can be a high degree of confidence that the average net impact of a Tier 1 investor on the UK economy is positive, recognising that there are costs associated with migration. It is possible that the current £1 million threshold is already achieving this."

Department for Business, Innovation and Skills & UK Trade and Investment response to MAC call for evidence

4.7 Some partners suggested that the thresholds should be lowered and that more should be done to promote greater take-up of the route, in order to maximise the benefits to the UK. Others, however, would be wary of reducing the threshold.

"Reducing the threshold amount may be an interesting offer as it may encourage a broader number of individuals to take up the scheme."

CS Global Partners response to MAC call for evidence

"Nor do we believe that the UK should lower investment thresholds…..At present the visa is attracting good quality low risk applicants."

Fragomen response to MAC call for evidence

4.8 When considering changes to the level of the threshold, it is important to assess the potential elasticity effects. That is, how the demand for the route from investors would change in response to a change in the threshold level.

4.9 In theory, with sufficient information on the number of applicants at different investment thresholds, it would be possible to estimate how changes in the required investment threshold might impact on demand for the Tier 1 (Investor) route. However, in practice this is very difficult to determine, partly because of the lack of data but mainly because the drivers of demand from investors are complex and are not restricted to financial considerations. The decision to invest in the UK is a function of both financial/economic and non-financial factors. Based on the evidence received from partners, non-financial factors clearly dominate and include the following:

- the rule of law and a stable and safe environment for an investor's dependants;
- the requirements associated with the Tier 1 (Investor) visa; and
- the competing offer from other countries with similar investor routes.

4.10 Another way to determine the potential effects of a change in the investment threshold could be by considering similar changes in investor routes in other countries. This would provide an indication, though not an exact measure as the structures and provisions of the route across countries are not identical to those of the UK, as to the impact of any revision to the minimum investment thresholds.

4.11 One international comparator that we looked at for this purpose is the Canadian Immigrant Investor Program, as the minimum threshold for this route was increased from (Canadian) $400,000 to (Canadian) $800,000 in December 2010. Following this change, until July 2011, the Canadian Government received approximately 3,000 applications. The Canadian Government were, at that time, working through a large backlog of cases. To help clear the backlog, Canada introduced an annual quota of 700 permits per annum from July 2011. The application of a quota was insufficient to assist the Canadian Government in working through the backlog so, in mid-2012, the route was suspended. On 11 February 2014, the Canadian Government announced that they had closed the route (Government of Canada). It is difficult to draw any conclusions from the experience of Canada with respect to the impact of increasing the minimum investment threshold. In the absence of information from elsewhere, we therefore considered the possible impact of changes to the threshold on the demand for the route in a theoretical manner.

4.12 The effect on the demand for the route following a change in the investment threshold levels is determined by the slope of the demand curve. We would expect that demand for Tier 1 (Investor) visas responds negatively to a change in price (level of investment threshold). Therefore, an increase in price would result in lower demand. The key issue for us is to try and understand by how much demand falls (rises) when the price rises (falls). If demand falls by proportionately less than the increase in price, this is termed inelastic – that is, demand is relatively unresponsive to price changes, and then the investment threshold could be raised without seeing a big decline in investor applications. If, though, demand falls by proportionately more, this is considered elastic, demonstrating that demand is relatively sensitive to price changes, so a small increase in the threshold may lead to a relatively large decrease in migrant investors.

4.13 If a change in the threshold levels is being considered, there may be a balance to be struck between the increase (decrease) in the thresholds and the potential corresponding fall (rise) in the demand for the route and hence the degree of overall positive impact on the UK economy.

4.14 It should be noted that the demand curve for an item – in this case a Tier 1 (Investor) visa – measures the consumer's willingness to pay for the item. The present price is a £1 million loan. Many investors would be prepared to pay above this price but, at present, the UK Government does not benefit from the extra return from these intra-marginal investors would be prepared to pay. We return to this point in Chapters 5 and 6.

4.15 It is also possible that the demand for Tier 1 (Investor) visas corresponds positively to an increase in price. That is, an increase in the investment threshold level may instead lead to an increase in demand. This can be the case if individuals believe that a more expensive good is of a better quality and is more exclusive. However, it is difficult to establish whether such a view would be held about the Tier 1 (Investor) route, therefore making the consequences of a change in the threshold level even more unpredictable.

4.16 The evidence received from partners on the possible effects of changes to the thresholds is mixed. Some see the investment sum as the price of a ticket to come to the UK and would not be dissuaded from coming to the UK should the price of that ticket go up. For others, an increase in the thresholds, in particular the minimum threshold, would make competing countries more attractive.

"...just over 54% of [18] respondents to our survey indicated that they did not believe that increasing the minimum threshold to £2 million would deter applicants to the scheme."

Kingsley Napley response to MAC call for evidence

"Increasing the threshold is likely to price the product out of the market."

CS Global Partners response to MAC call for evidence

"Increasing the minimum investment threshold would simply make an already niche route even smaller."

Fragomen response to MAC call for evidence

4.17 Discussions with partners suggest there may be a third category of investors: those who would be willing to pay more should other rules around the route be relaxed. Some suggestions as to the other changes that could be made alongside an increase in thresholds include widening investment opportunities; reducing residency requirements; accelerated citizenship; and accelerated settlement for dependants in line with the main applicant. We discuss these further in Chapter 5.

"We think raising the investment level may put off more entrepreneurial clients especially where those investments are not generating much profit for them and are in products that could lose money rather than generate a return. If the investment minimum is raised then there needs to be more flexibility on the type of investments so the investor sees a better return or at least the chance of a better return."

Speechly Bircham response to MAC call for evidence

4.18 To better evaluate the impact of any changes in demand as a result of changes to the investment thresholds, we now consider the two key factors which influence demand: the motivations of potential investors and similar routes offered by international competitors.

4.3 Key factors influencing demand for Tier 1 (Investor) visas

Investors' motives for coming to the UK

4.19 In general terms, there are a number of reasons behind an individual's decision to relocate to another country under an investor programme.

Sumption and Hooper (2014) identify three key issues which impact on an individual's decision:

- A mechanism by which to settle their family abroad;
- An insurance policy – providing options in the face of political or economic uncertainty in their own country; and
- Obtaining the ability to travel with fewer visa restrictions.

4.20 Partners told us that as the number of high net worth individuals worldwide has increased, there has emerged a competitive international market for such individuals. In our discussions with partners, we were told that the UK offers an attractive option in a competitive international market. Indeed, partners told us that there was, broadly speaking, an A-list within the market, and that the UK is one of these A-list countries.

4.21 We asked partners to elaborate on this point so that we could develop a greater understanding of why Tier 1 investors choose to invest and reside in the UK in preference to other countries. Partners told us that, whilst the UK does offer a relatively attractive business environment for investors and entrepreneurs, this was not the only or main driver behind investors' desire to come to the UK. Social, legal and cultural factors were equally, if not more, important. For example, the results of a survey of 24 investor clients conducted by the law firm Mishcon de Reya indicated that the motives for investing in the UK, in order of importance, are:

1. rule of law;
2. security of assets;
3. education;
4. stable government;
5. language;
6. business environment;
7. culture;
8. access to an EU time zone.

4.22 Mishcon de Reya's findings are broadly in line with the evidence we received from other partners. Other factors cited were the ability to obtain citizenship and the immigration system itself. We were told that for Tier 1 investors with children, the provision and availability of high quality education, in both the independent sector and further education sector, were the key drivers behind their decision to migrate to the UK.

4.23 Partners told us that whilst the UK population tends to take the stability of Government, rule of law and security of assets within the UK for granted, many Tier 1 investors originate from countries where such certainties do not exist and naturally find the UK an attractive option for these reasons.

> *"For applicants from certain jurisdictions…political landscape (in the context of the rule of law and absence of corruption in administration, gathering perceptions of 'fairness' and a stable environment for business) is one of the most common attractions."*
>
> Laura Devine Solicitors response to MAC call for evidence

> *"…the feeling of security through the rule of law that comes with residing in the UK is still enough to make it a preferred destination."*
>
> PWC Legal response to MAC call for evidence

4.24 The English language is, we were told, another driver for Tier 1 investors, particularly those who have previously spent time in the UK, or who originate from countries where English is either widely spoken or the predominant second language among the population.

> *"Language is often quoted as a factor...given that English is spoken widely across the world and is a second language for many nations…this appears to factor strongly in the decision making process."*
>
> Newland Chase response to MAC call for evidence

> *"It is important to our Russian and Chinese clients especially that their children learn to speak English."*
>
> CS Global Partners response to MAC call for evidence

4.25 We were also told that the British passport continues to be held in high regard and that, in conjunction with other factors such as the taxation system, the desire to acquire British citizenship remains a key driver for Tier 1 investors. However, not all investors wish to obtain citizenship, often owing to restrictions on dual citizenship in their home countries.

> *"Ultimately settlement and citizenship are the key prizes for the vast majority of Tier 1 (Investor) migrants."*
>
> Fragomen response to MAC call for evidence

> *"Most if not all clients...want to acquire British nationality."*
>
> Roger Gherson Solicitors response to MAC call for evidence

> *"Some clients will refrain from obtaining UK citizenship although they desire the permanent residence."*
>
> CS Global Partners response to MAC call for evidence

4.26 We were told there were other important considerations for potential Tier 1 investors. For example, the ease with which they expected to integrate into the UK was important, whilst for others the business environment was a consideration. However, partners told us that such factors were insufficient to act as a driver in isolation.

> *"The UK is one of Europe's most competitive locations for business…HNWI's are confident in the UK markets."*
>
> PWC Legal response to MAC call for evidence

> *"London is such a varied environment, full of so many different languages and cultures and is relatively welcoming to foreigners and easy to integrate."*
>
> CS Global Partners response to MAC call for evidence

4.27 Fragomen told us that the way in which the immigration system operates plays a role in encouraging potential investors to invest in the UK as opposed to other countries, citing four key issues as being important: certainty, speed, flexibility, and stability. Fragomen told us the fact that applications under the Tier 1 (Investor) route are considered against objective criteria, with decisions made relatively quickly, make the UK an attractive option compared to competitors. In addition, there have been relatively few changes to the route since the introduction of the Points Based System, with any changes easily explicable to investors.

> *"Tier 1 investor policy has remained relatively stable since 2009 and there have been no retrospective changes. Where there have been changes they have been easily explained and generally helpful."*
>
> Fragomen response to MAC call for evidence

4.28 Fragomen also suggested that the route is perceived to offer a degree of flexibility with respect to the size of the investment and the investment vehicle, which is valued by prospective investors. Laura Devine Solicitors also raised the issue of flexibility, but with a greater focus on the freedom to undertake business activity without any requirement to do so.

"Flexibility is one of the key drivers for this client group: they do not want to be constrained by an obligation to engage in any particular business or employment activity, but want the freedom to be able to do so."

Laura Devine Solicitors response to MAC call for evidence

4.29 Based on the evidence provided by partners, it seems that the UK offers an attractive environment in which high net worth individuals can invest and reside. That said, compared to the United States (US) and Canada, applicant numbers are relatively low. In 2012, the US Government issued 6,628 EB-5 visas, whilst Canada met the quota of 700 applications within 30 minutes of release during the year 2011. The US has experienced a marked increase in applicant numbers, although volumes remain within the 10,000 (including dependants) quota.

4.30 Following our assessment of the benefits of the Tier 1 (Investor) route to the UK economy in Chapter 3, the main beneficiaries of the route appear to be the investors themselves. This suggests that there is scope to increase the required thresholds. Assuming that the non-financial benefits are more important than the investment thresholds in the decision to apply for the route, the potential negative effect on demand from an increase in the threshold levels may be limited.

4.31 However, as we set out in paragraph 4.20, we recognise that the UK does not operate in isolation, and that there is international competition for high net worth individuals. We therefore need to examine the alternative options open to potential investors.

International competitors

4.32 We discussed at paragraph 4.20 that partners consider the UK to be part of an A-list within a competitive international market, alongside Australia, New Zealand and the US. Canada was also part of this list prior to the closure of their investor route, although the Quebec specific scheme remains open and the Price Edward Island province scheme opened in January 2014.

"Reputationally, the UK Tier 1 (Investor) opportunity ranks as one of the most desirable in the world."

CS Global Partners response to MAC call for evidence

Tier 1 (Investor) route

4.33 The characteristics of investor routes offered by A-list competitors, including that offered by the UK, are outlined in Table 4.1 below.

Table 4.1: Investor routes offered by 'A-list' competitor countries

Country	Investment sum (minimum)	Approximate equivalent investment sum (£)^	Qualifying investment types	Residence requirements+	Citizenship qualifying period	Volume of grants
Australia	Aus $1.5 million	£810,000	Bond; Infrastructure; Private companies.	For citizenship: no more than 365 days total absence over four year period (maximum of 90 days absence in final year)	4 years	7,010*
	Aus $5 million	C£2.7 million		160 days over 4 year period (40 days p.a.).		
Canada	Can $800,000	£440,000	Bond.	275 days over 5 year period (55 days p.a.)	5 years	Closed since 11 February 2014.
New Zealand	NZ $1.5 million	£750,000	Bond; Equity in New Zealand businesses; Residential property development.	146 days over 4 year period (36 days p.a.)	5 years	N/K
	NZ $10 million	c£5 million		88 days in last 2 years of 3 year period of investment (44 days p.a.).		
US	US $500,000	£300,000	New commercial enterprise in area of high unemployment (150 per cent of national average) or rural area; Investment via a Regional Centre.	60 per cent of each year (219 days p.a.)	5 years	6,628 (from a quota of 10,000 which includes dependants). #
	US$ 1 million	£600,000	New commercial enterprise.			
UK	£1 million	N/A	Bonds; Share or loan capital in UK registered trading company.	185 days p.a.	6 years	

Notes: ^ Calculated using current exchange rates as of February 2013. + Residence requirements relate to qualification criteria for settlement, unless otherwise stated. * Taken from State and Territory Migration report June 2013. The figure provided encompasses the entirety of the Business Innovation and Investment Programme, including extensions, for the period December 2012 – June 2013. # Taken from the Department from Homeland Security 'Yearbook of Immigration Statistics' 2012, encompassing the period January – December 2012.
Source: MAC analysis

Tier 1 (Investor) route

4.34 The A-list countries currently provide the greatest competition to the UK. Partners told us that a significant number of potential investors favour the US, which is able to offer high quality education, stability, security of assets and, in the longer term, citizenship at a comparable level to the UK. The US is viewed as more attractive to some investors due to its history of entrepreneurialism and business activity. That said, partners also told us that the route offered by the US was complex and suffered from uncertainty over the outcome of applications, which often prompted potential investors to consider the UK as an alternative, given the certainty and relative simplicity associated with the Tier 1 (Investor) route.

4.35 The Canadian route was attractive for similar reasons. However, this route has been suspended since 1 July 2012, and formally closed on 11 February 2014. There remain provisions for investors to invest in Quebec, which is limited to 1,750 applicants per annum. The requirements of this programme mirror those of the Canadian Investor Immigrant Program.

4.36 A separate route, for those who wish to invest in the Prince Edward Island province of Canada, opened in January 2014, with a limit of 400 places during 2014. The Prince Edward Island Nominee Program requires that an investor has a minimum net worth of Can $600,000, has management expertise and invests Can $150,000 in a qualifying business. The applicant must also demonstrate that they intend to reside in the Prince Edward Island province (Investor Visa Canada). No further details on the programme are available at present. However, the requirement to invest in a qualifying business and for the investor to have management expertise infers that this programme is more analogous to the Tier 1 (Entrepreneur) route than the Tier 1 (Investor) route.

4.37 For many investors, particularly those from Asia, the option of Australia or New Zealand is more attractive than the UK. This is due to two main factors: the proximity of Australia and New Zealand to their country of origin, and the lower residence requirements of those routes.

4.38 It may be the case that any decision by the UK Government to increase investment thresholds would serve to make the routes offered by Australia, New Zealand and the US, as well as that of Canada should it be reinstated, more attractive propositions. However, there are areas in which the UK's scheme compares sufficiently favourably to those offered by A-list competitors to mitigate against this. For example, partners told us that the requirement to create employment renders the US less attractive than the UK which has no such requirement.

4.39 Furthermore, unlike the other countries who comprise the A-list, the UK route provides access to the rest of the European Union (EU), particularly once an investor obtains citizenship.

4.40 There are a number of routes operated by countries within the EU which are similar to the UK's Tier 1 (Investor) route. Table 4.2 outlines the key characteristics of these routes.

Table 4.2: Investor routes offered by European Union (EU) countries

Country	Investment sum (minimum)	Approximate equivalent investment sum (£)*	Qualifying investment types	Residence requirements	Citizenship qualifying period
Austria	Euro 2 million	c1.6 million	Endowment.	N/A	At discretion of Austrian Government.
	Euro 10 million	c£8.4 million	Investment in Austrian economy.		
Bulgaria	Euro 500,000	£210,000	Bond.	N/A	6 years.
Cyprus	Euro 2.5 million	c£2.1 million	Endowment.	183 days p.a.	5 years.
	Euro 3 million	c£2.5 million	Bank deposit.		
	Euro 5 million	c£4.1 million	Real estate; Deposits.		
France	Euro 10 million	c£8.2 million	Long term, non-speculative investment in commercial or industrial assets.	183 days p.a.	5 years.
Greece	Euro 250,000	£210,000	Real estate.	N/A	N/A
Hungary	Euro 250,000	£210,000	Bond.	N/A	8 years.
Ireland	Euro 500,000	£410,000	Endowment.	Visit once every 12 months.	5 years.
	Euro 1 million	£820,000	Bond.		
Latvia	Euro 36,000	£30,000	Establishment of business (by invitation only).	6 months p.a.	10 years.
	(a) Euro 72,000 or (b) Euro 150,000	(a) £60,000 or (b) C£1.26 million	(a) Property outside major cities or (b) property in major cities.		
	Euro 300,000	£250,000	Bank deposit.		

Tier 1 (Investor) route

Table 4.2: Investor routes offered by European Union (EU) countries

Country	Investment sum (minimum)	Approximate equivalent investment sum (£)*	Qualifying investment types	Residence requirements	Citizenship qualifying period
Malta	Euro 1.15 million	£940,000	Euro 650,000 endowment + Euro 350,000 real estate purchase + Euro 150,000 investment in eligible stocks, bonds or debentures.	N/A	Immediate.
Portugal	Euro 500,000	£410,000	Real estate.	7 days in first year, 14 days for each subsequent year.	6 years.
	Euro 1 million	£820,000	Capital investment.		
Spain	Euro 500,000	£410,000	Real estate.	183 days p.a.	5 years.
	Euro 1 million	£820,000	Bank deposit.		
	Euro 2 million	c£1.6 million	Bond.		

Note: * Calculated using current exchange rates as of February 2013.
Source: Migration Advisory Committee analysis

4.41 The UK compares favourably with EU competitors with regard to the main drivers for investors, namely; stability, security of assets, and a high quality education sector. However, other EU countries have taken measures to introduce routes which are competitive.

"Countries across Europe are introducing similar but much cheaper schemes, with more varied choice of investment."

Fragomen response to MAC call for evidence

4.42 Partners have told us that the Portuguese and Spanish schemes may become more attractive because they permit investment in property to count towards the investment requirement. However, it is difficult for some investors to obtain Portuguese citizenship due to that country's language requirement.

4.43 Partners also told us that the Maltese scheme may become increasingly attractive to potential investors. The proposed offer of citizenship (recently amended to introduce a 12 month residence qualification) and associated free movement within the EU, was felt to be particularly attractive and competitively priced.

"There are international investment schemes which arguably offer better value for money, particularly where the investor immediately benefits from citizenship."

Kingsley Napley response to MAC call for evidence

4.44 That said, some partners told us that they consider it likely that a significant number of those who do make use of the Maltese scheme will choose to reside in the UK. If this is so, then we can expect the UK to continue to benefit from the in-country spending of these foreign investors.

"...[investors] may use another country's programme to enter the UK. For example, if they obtained a Maltese passport, they could use this to come to the UK."

Fragomen response to MAC call for evidence

4.45 The UK also faces competition from citizenship by investment schemes operated by the governments of Antigua and Barbuda, Dominica, Grenada, and St Kitts and Nevis. The routes offered by these governments are outlined at Table 4.3 below.

Table 4.3: Citizenship by investment schemes outside the 'A-list' and EU

Country	Investment sum (minimum)	Approximate equivalent investment sum (£)*	Qualifying investment types	Residence requirements	Citizenship qualifying period
Antigua & Barbuda	US$ 250,000	£150,000	Endowment.	7 days p.a.	Immediate.
	US$ 400,000	£240,000	Real estate.		
	US$1.5 million	£900,000	Investment in a business.		
Dominica	US$ 100,000	£60,000	Bond.	N/A	Immediate.
Grenada	US$ 500,000	£300,000	Real estate.	N/A	Immediate.
St Kitts & Nevis	US$ 250,000	£150,000	Endowment.	N/A	Immediate.
	US$ 400,000	£240,000	Real estate; Share capital.		

Note: * Calculated using current exchange rates as of February 2013.
Source: MAC analysis

4.46 Such schemes provide a passport of convenience. The attraction is that they offer, at relatively little cost and with minimal, if any, residence requirements, immediate citizenship and, crucially, wider visa-free travel. However, for those who wish to reside or settle somewhere other than their country of origin, they are less attractive propositions, as the visa-free travel element generally only applies to short term visits, rather than longer term residence in the investor's preferred country, be that the UK, the US, the EU or elsewhere.

4.4 Conclusions

4.47 In the current tough financial climate, it is not unreasonable to expect that other nations, particularly in the EU, might further their efforts to attract high net worth individuals by offering more enticing incentives. Indeed, Spain, Portugal and Malta have already taken steps to do so, offering the ability to invest in property, unrestricted access to the Schengen area of the EU, minimal residence requirements and, in the case of Malta, accelerated citizenship. As outlined above, the attractions of such offers are obvious, and may attract some who would otherwise have chosen to come to the UK. Given this, partners argue that any revision to the minimum investment thresholds might be sufficient to further increase the allure of other nations.

4.48 However, it is not necessarily the case that offers by competitors, such as Malta, are similar to the UK's offer. The UK Tier 1 (Investor) route continues to attract applicants in an increasingly competitive international market. As we have set out above, there is strong evidence that non-financial factors, such as stability, the rule of law, and a high quality education sector, are key drivers that should help the UK remain an attractive destination for potential investors. As such, it may well be the case that the UK is less reliant on price and other incentives to attract high net worth individuals, given the benefits the investors associate with residence.

> *"The particular combination of factors that the UK is able to offer…make it the preferred destination for clients over other investment schemes...despite the often higher cost and lesser status."*
>
> Laura Devine Solicitors response to MAC call for evidence

4.49 We are not convinced by claims that revision of the investment thresholds would have a significant impact on the competitiveness of the Tier 1 (Investor) route. The demand for the route is predominantly driven by non-financial factors. Indeed, it could be the case that the price set by the UK should take the non-financial drivers into account. The current price of £1 million is a loan, not a gift, so delivers minimal benefit to the UK. As the migrant investor is the main beneficiary, we believe that the UK could gain more with wider reform of the route. We consider this in the next chapter.

Chapter 5 Options for reform of the Tier 1 (Investor) route

5.1 Introduction

5.1 In this chapter we outline potential options for reform of the Tier 1 (Investor) route to better deliver significant economic benefits for the UK. We concluded in Chapter 3 that there was little benefit for the UK as a result of the majority of investment being in UK Government gilts. Therefore, we begin this chapter by considering alternative investment instruments which might deliver more significant direct economic benefits to the UK. We then outline policy changes which might positively influence demand for this route. Finally, we set out ways in which the investment thresholds could be determined. We set out our recommendations in Chapter 6.

5.2 Alternatives to current investments

5.2 Having assessed the value of the Tier 1 (Investor) route as currently constituted, we found in Chapter 3 that the direct benefit to the UK from the initial investment seems to be limited. This is largely due to the fact that investors predominantly invest in Government bonds, which is simply a loan to the UK Government. The Government is already able to access the finance it requires from capital markets, particularly at a time when UK gilt auctions are typically oversubscribed, and hence does not need the additional funding provided by the Tier 1 (Investor) route.

5.3 Broadening the scope of the investment tools which Tier 1 investors use would yield greater benefits for the UK. We asked partners with expertise in this field to provide evidence to inform our discussion and are grateful to them for doing so. We summarise partners' suggestions here.

Widening current investment tools

5.4 Tier 1 investors are currently permitted to invest in share or loan capital in **UK listed public companies**. However, such investment is subject to the requirement to maintain the value of the investment which means that, if share prices decline, the investor must top up their investment. Greater investment in publicly listed companies, or indeed any investment type other than gilts, would be encouraged by relaxing the topping up requirement. We discuss the topping up requirement in greater detail at paragraph 5.16.

Tier 1 (Investor) route

5.5 At present, the Tier 1 (Investor) route does not easily allow for **investment in private companies**, due to the complexity of assessing the value of the investment at regular intervals. There may be a case for relaxing reporting requirements for investments in private companies, perhaps in line with Her Majesty's Treasury's (HMT) Business Investment Relief scheme (Her Majesty's Revenue and Customs, 2012a). Under this scheme, HMT provides tax relief for remittance basis taxpayers who bring their foreign income or gains to the UK and invest it in a target company. HMT defines which companies qualify as target companies.

5.6 It is worth making clear that this scheme will currently only permit investment in a business which is operating in the UK and is subject to UK taxation. It would be necessary to retain this provision to ensure that the UK benefits from investment in publicly listed or private companies.

Including other existing investment tools

5.7 The Tier 1 investment requirement could be widened to include other existing investment tools. These include

- Venture Capital schemes: a collective of different schemes, including the *Enterprise Investment Scheme* (EIS), *Seed Enterprise Investment Scheme* (SEIS) and *Venture Capital Trusts* (VCT). In these schemes, HMT offers attractive tax reliefs to incentivise investors to invest in small high-risk, or small early-stage, companies who face difficulty in accessing finance from more traditional routes (HMRC, 2013).

> *"It would be of greater use to accept investment into some of the many successful venture capital funds and schemes that are becoming increasingly present in the UK's early stage enterprise sector. Investment in these schemes serves to create employment, stimulate growth and has far wider effect on the UK economy as a whole when compared to investing in UK government funds."*
>
> Find Invest Grow response to MAC call for evidence

- Angel Investments (AI): this would see the investor invest in one, or a number of, small businesses, which are generally at the start-up or early stages. The investor would be free to choose which companies to invest in and, in addition to providing finance, would provide the business(es) the benefit of their guidance, expertise and experience. Such investments can be made individually or as part of a group (pooled).

Creating new investment tools

5.8 The investment requirement could be widened to incorporate new bespoke investment tools, such as:

- Infrastructure Bonds: this instrument could be a public-private partnership, or privately owned, but Government backed scheme. Alternatively, it could simply be a variation on existing government bonds. The capital raised by these bonds would be used to fund infrastructure projects throughout the UK, and would provide the investor a stable return over the long term.

> *"National and local government policy recognizes the importance of infrastructure projects to drive economic growth and social regeneration Infrastructure projects are a readily understood asset class by international investors."*
>
> Invest UK response to MAC call for evidence

- Property Development: this type of investment would see the funds from Tier 1 (Investors) directed towards property development schemes, either via local authorities or private developers. This would be particularly useful where access to funding is not readily available. However, it is more commonly the case that planning issues, rather than funding, act as the main impediment to property development, so there may be minimal benefits for UK residents in permitting this type of investment. If investment in property development was permitted, careful consideration should be given to the type of property being funded and how beneficial this is to UK residents.

Combining investments

5.9 The Tier 1 (Investor) route could be amended to allow for combined investments such as:

- Pooled investments: partners told us that the ability to pool investments would be attractive to investors. This could be done in a similar way to VCT's or AI's, or alternatively, it could be a privately arranged scheme.

- A UK Government operated fund for business: would be a similar scheme to pooled investments, but one that is operated by the UK Government. The Government would pool the investments from Tier 1 investors and invest in a number of Small and Medium Enterprises (SME). This could be done in a similar way to the existing Business Growth Fund provided by the Department for Business, Innovation and Skills (BIS).

Philanthropic contributions/donations

5.10 A further suggestion made by some partners is to replace or supplement investment with philanthropic contributions or donations.

"Kingsley Napley has considered possible recipients of such donations and identified three example funds which could be established:

- *An education fund to identify gaps in educational services, such as music programmes...an education fund with a clear remit on the services it will support, managed by a grant making charity or government department, could consider applications directly from schools and borough wide educational services.*

- *An arts fund, possibly relying on the Arts Council to determine worthy recipients of funding.*

- *A health fund focused on medical research. Recent reports show that falls in charitable donations to medical research charities are threatening investment into medical research funding. A new health fund could address this gap in funding."*

Kingsley Napley response to MAC call for evidence

5.11 Some partners considered that such an option would be attractive to investors, or at least would not act as a disincentive. In his article *'Let's give visas to cultural benefactors'* Richard Morrison (2014) writes *"Would prospective migrants really prefer to donate a million or two, rather than investing it?...a significant number would, not least because British citizens would look more favourably on them, and because they would be supporting the very things (education, culture and healthcare) that make many of them want to live in Britain in the first place"* (Morrison, 2014).

5.12 We did not receive any evidence to suggest that Mr Morrison's supposition is correct. Indeed, as we note in Chapter 3, philanthropic activity by Tier 1 investors does not appear to be significant.

Financial Conduct Authority (FCA) Guidance for investment advisors

5.13 When considering the potential range of investment options, the guidance for investment advisors provided by the FCA should be noted. The FCA requires that investment advisors offer a range of investment instruments reflecting their client's risk appetite. As such, investment advisors would not recommend a single investment in gilts (low returns) or venture capital (high risk). Rather, they would offer a suite of investments, which could mean that an investment portfolio contains, for example, a combination of gilts, UK equities, cash, and other investment instruments, where the proportion of each type of investment reflects the client's appetite for risk.

5.14 In part because of the restrictions on investment advisors, simply widening the permitted investment instruments may not be sufficient to encourage Tier 1 investors to move away from investment in gilts and, therefore, the Government may wish to reflect on the desirability of making some changes compulsory.

> *"Even if the Government increased the options available for potential investments, gilts are still likely to remain far lower risk and effort for investor-track migrants, and therefore could continue attracting the majority of funds. Given that an investment in gilts provides minimal economic benefit at the margin, it is worth considering whether there is anything the Government could do."*
>
> Department for Business, Innovation and Skills and UK Trade and Investment response to MAC call for evidence

5.15 We now consider potential policy changes which might impact on the competitiveness of, and demand for, the Tier 1 (Investor) route.

5.3 Other changes to the Tier 1 (Investor) route which might influence demand

The topping up requirement

5.16 At present the Immigration Rules state that *"If the value of your investments is reduced by fluctuations in share prices, it must be corrected by the next reporting period, so that overall value of these investments is maintained throughout your leave."* In practice this requires a Tier 1 investor to top up the value of their investment should it fall below the required threshold.

5.17 We were told that the topping up requirement incentivises investment in gilts rather than other instruments principally because gilts offer relatively greater stability and hence reduce the risks involved. As we discussed in Chapter 3, this type of investment provides little benefit to the UK. Partners consider that removing this requirement would incentivise investment in other instruments, such as those outlined above, which might provide greater value to the UK.

> *"The restrictions at present may put off investors who are interested in higher risk investments with a chance of a higher yield, but are concerned about the need to 'top up'...many investors choose to purchase government bonds in order to play 'safe'."*
>
> Magrath Solicitors response to MAC call for evidence

Residence requirement

5.18 The current rules require that a Tier 1 investor spends a minimum of 185 days in the UK during any given year in order to qualify for settlement. Partners told us that investors find this rule too onerous. They argued that Tier 1 investors often find it difficult to meet the residence requirement as they have business interests overseas which require their attendance.

> *"Many interlocutors have commented on the impracticality of this requirement which seems blind to the realities of global business."*
>
> Department for Business, Innovation and Skills and UK Trade & Investment response to MAC call for evidence

> *"This...does present problems for internationally mobile business people, precisely those the category is designed to attract."*
>
> Fragomen response to MAC call for evidence

5.19 We were told that as a result of the residence requirement, it is often the case that the spouse of an investor will apply as the main applicant under the Tier 1 (Investor) route as they are better able to meet this requirement. This further incentivises investment in gilts, due to the relative simplicity of such investments and the lack of a need to monitor the investment. Partners suggested that this would mean that the spouse is less likely to be involved in entrepreneurial or business activity in the UK.

> *"Where there is a spouse/partner (provided that they do not have extensive business travel needs), this...can be ameliorated to some degree."*
>
> Laura Devine Solicitors response to MAC call for evidence

5.20 Partners suggest that the residence requirement should be reduced. There are various means by which this requirement could be amended. We set those options out here.

5.21 During our meetings with partners, a residence requirement of 90 days was the most commonly cited suggestion.

> *"Recognise the "financial residency" which the Tier 1 investors clearly demonstrate but reduce the "physical residency" requirements to be at least 90 days in any year."*
>
> Henley & Partners response to MAC call for evidence

5.22 Other partners suggested that the residence requirement should be aligned with the Statutory Residence Test used by HM Revenue and Customs (HMRC) to determine tax residence (HMRC, 2012b). HMRC operates an automatic residence test, which sets a baseline of 183 days presence in the UK in each 12 month period to be considered tax resident in the UK. However, they do consider other factors which will establish tax residence where absences are greater than 183 days. The factors which are considered by HMRC are as follows:

- Family Tie: The family tie is considered as having been met where the individual's spouse, civil partner, common law partner, or child under the age of 18 years old are resident in the UK. Children in full time education in the UK are not counted provided they do not spend more than 21 days in the UK outside of term time.

- Accommodation tie: The accommodation tie is met if an individual has a place to live in the UK which is available to them for a continuous period of at least 91 days per year and at least one night is spent there. If the property belongs to a relative, the 91 day requirement is reduced to 16 days. The property does not have to be owned by the individual.

- Work tie: The work tie is met where an individual works for more than three hours per day for at least 40 days per year. This can include travelling time where paid for by the employer and job-related training.

- 90 day tie: The 90 day test is met if an individual spends more than 90 days in the UK in either of the two years preceding the current tax year.

- Country tie: An individual meets this test where they spend the greatest number of days in that year in the UK. HMRC operate a midnight test whereby the individual is considered to have spent a day in the UK if they have been present in the UK at the end of that day i.e. at midnight. Where the midnight test is met for two or more countries, the individual meets the country test if just one of those countries is the UK.

5.23 HMRC considers that the greater the number of significant ties to the UK, the fewer days presence in the UK are required to establish tax residency. Table 5.1 outlines the minimum number of days residence required to establish tax residence where other factors are evident.

Tier 1 (Investor) route

Table 5.1: HMRC significant ties test: Number of ties to the UK and correlated residence requirements to establish tax residency	
Number of ties to the UK	**Residence requirements (days)**
1	183
2	121
3	91
4	46
Source: Her Majesty's Revenue and Customs (HMRC) (2013)	

5.24 It seems reasonable to infer that the Government would wish to ensure that Tier 1 investors remain liable for UK tax on their UK based income and partners told us that one of the attractions of the Tier 1 (Investor) route is the certainty it provides. As such, any move to align the Tier 1 (Investor) route residence requirements with those of HMRC's statutory residence test would need to be carefully worked through in order to ensure that the respective requirements are clear to both investors and the Government.

Investment at the higher levels of £5 million and £10 million

> *"Our own experience has shown that many of our clients have considered the £5 [million] or £10 million route but have decided not make the additional investment as their dependants would not be eligible to obtain ILR at the same time."*
>
> Kingsley Napley response to MAC call for evidence

5.25 As outlined in Chapter 3, partners told us that potential investors are not incentivised to invest at the higher levels for two main reasons. First, there is a discrepancy between the acquisition of accelerated settlement for the main applicant, who can obtain settlement in two or three years, and their dependants, who must wait five years before obtaining settlement. Aligning the qualifying periods for settlement may go some way to incentivising greater investment at the higher levels.

> *"Following the changes to the Rules...resulting in dependants no longer being eligible for ILR at the same time as the investor using the accelerated routes to settlement...For virtually all our clients who could have invested at the £5 million or £10 million levels, this has been the single most influential factor in their decision not to."*
>
> Laura Devine Solicitors response to MAC call for evidence

"We find a lot of our clients are interested in the accelerated routes to ILR under the investor programme but are put off when they realise that only the main applicant can benefit."

Speechly Bircham response to MAC call for evidence

5.26 The second disincentive concerns the dislocation between accelerated settlement and the qualifying period for citizenship. At present, an investor may obtain settlement within two or three years rather than the usual five, but only benefit from a 12 month reduction in the qualifying period for citizenship. We were told that offering accelerated citizenship would both increase demand within the route and generate increased investment or revenue as a higher threshold could be set. However, because higher thresholds have only been introduced very recently, we have been unable to assess whether or not the disincentives described by our partners have translated in low take-up.

"It defies logic as to why a client interested in nationality would invest £10 million when investing £5 million would get him citizenship at the same time."

Roger Gherson Solicitors response to MAC call for evidence

"The government could introduce a higher price threshold with a correlated relaxation of the number of days required under the investor visa, possibly even a direct route to citizenship based on a substantial contribution [donation] to the Government."

CS Global Partners response to MAC call for evidence

"Creating a further category for individuals willing to invest a minimum of £20 million, in return for expedited citizenship rights...could raise approximately £1-2 billion of new investment annually."

Mishcon de Reya response to MAC call for evidence

5.4 Minimum investment thresholds

5.27 As we discuss earlier in this report, partners consider that any increase of the current thresholds would act as a disincentive to potential Tier 1 investors. Whilst some partners made the case for investment thresholds being reduced, only one partner suggested a mechanism by which the thresholds could be uplifted.

> *"Uplifting the figure for inflation would ensure that the cash return would generate the same purchasing power now as 20 years ago."*
>
> Office of the First Minister and Deputy First Minister of Northern Ireland response to MAC call for evidence

5.28 In the absence of any comparative examples, it is difficult to determine whether revisions to the current investment thresholds would have a significant impact on demand. The Government could decide, therefore, to leave the minimum level of investment at the current level of £1 million. However, this minimum level has not been revised since 1994 and its real value now is less. Should it be decided that the value of the investment be constant in real terms then the level will have to change.

5.29 The first potential way to revise the threshold would be to benchmark it in line with inflation rates since 1994. We have considered a number of inflation measures that could be used to do this: the growth in average weekly earnings, the weekly earnings growth at the 95th percentile, and Retail Prices Index (RPI) inflation. We have not considered Consumer Price Index (CPI) inflation as this measure was only introduced in 1997. Another possible measure to uplift the threshold is, as suggested by the Office of the First Minister and Deputy First Minister of Northern Ireland, the Gross Domestic Product (GDP) deflator. However, as this measure captures components such as production costs, we believe it is less suitable for the purpose of the Tier 1 (Investor) threshold.

5.30 Based on full-time weekly earnings data (Labour Force Survey, 1994 and Labour Force Survey, 2013), increasing the minimum threshold in line with the growth in average weekly earnings from 1994 to 2013 would see the threshold rise from £1 million to £1.9 million. Increasing the minimum threshold in line with the growth in weekly earnings at the 95th percentile since 1994 would lead to a threshold of £2 million. Finally, we estimate that revising the minimum threshold based on RPI inflation from 1994 to 2013 (Office for National Statistics, 2014) would see the minimum level increase from £1 million to £1.8 million.

Using an auction to set the threshold

5.31 Instead of seeking to set the right price on the basis of incomplete information, the Government could allow the market to decide the level of investment. In pure economic terms, the most efficient way of doing this is by an auction, as the value potential buyers place on a finite resource is reflected by the amount they are willing to pay. Indeed, the Government has previously used auctions to allocate the 3G and 4G mobile telephone spectrum. The Government has also used auctions with respect to the European Union Emissions Trading System.

5.32 There are various ways in which an auction might operate, but we focus here on some relevant features. In order to maximise revenue, the

Government could limit the number of investor visas - a quota- that it would make available. The Government may also choose to set a reserve price for those visas i.e. a minimum price below which any bid would automatically fail. This price would be made public, in order that interested parties had a realistic prospect of making a successful bid. It should be noted, however, that in setting a reserve price, the Government would actually be setting a minimum threshold.

5.33 Interested parties would be invited to submit a single offer (as a sealed bid). Those who submit the highest offers would, subject to additional checks and due diligence, be successful in obtaining a visa provided they were within the quota. If the quota is not met, the remaining visas could be rolled over to the next auction, or simply lapse. If the quota is oversubscribed, those who were not successful at this auction would be free to submit a bid if and when the process was repeated.

5.34 Successful bidders would pay what they bid. This is often referred to as a pay-as-bid auction. This system provides simplicity and transparency and, over time, may provide the optimal price for the route as bids are likely to eventually coalesce around a specific figure. Incomplete information with respect to the value placed on the route by other bidders should ensure that individuals will bid in excess of the reserve price, to maximise their prospects of success.

5.35 It is important to note, however, the possibility that interested parties would engage in *shading* of bids. This means that the individual would assign a value to the Tier 1 (Investor) route. In order to maximise the value they receive from the product, the bidder would bid slightly less than the price they value the product at – they would shade their bid. Bidders would accept a reduced chance of success to ensure that they obtain best value, particularly as they would have the chance to bid again at future auctions, or make use of an investor route offered by other nations.

Revising the higher thresholds of £5 million and £10 million

5.36 As we discussed at paragraphs 5.25 and 5.26, there is at present little incentive for Tier 1 investors to invest at the higher thresholds of £5 million and £10 million. However, it may be the case that the Government wishes to retain the ability for investors to invest at higher thresholds in return for premium provisions. If this were the case, a fixed price for the higher thresholds could be set in the same way as for the standard route. Alternatively, a limited number of entry clearance visas for the premium route could be auctioned, again allowing the market to set the price for this.

5.37 Having considered the options, we now turn to our recommendations and conclusions.

Chapter 6 Conclusions and recommendations

6.1 Introduction

6.1 Our commission from the Government asked us to consider whether the investment thresholds (£1 million, £5 million and £10 million) under the Tier 1 (Investor) route are appropriate to deliver significant economic benefits for the UK, in particular the minimum £1m threshold. We concluded that there is little gain for UK residents from the initial investment itself, so there is little additional benefit to be gained from simply revising the minimum thresholds in isolation. Therefore, we have also considered the economic benefit to the UK arising from permitting alternative types of investments and those which derive simply from the presence of these high net worth individuals and their family in the UK.

6.2 This chapter summarises our conclusions and presents our recommendations in relation to the investment thresholds alongside our proposals on how the current requirements of the Tier 1 (Investor) route could be revised to ensure the route provides greater benefit to the UK economy and residents.

6.2 Is the Tier 1 (Investor) route beneficial to the UK?

6.3 The UK has, for the best part of two decades, operated a route for high net worth individuals to reside in the UK and, within five years, qualify for settlement and, later, citizenship: the Tier 1 (Investor) route. However, the underlying policy objective of the Tier 1 (Investor) route is not readily apparent. The Home Office define the Tier 1 (Investor) route as the category *"for high-net-worth individuals making a substantial financial investment in the UK"* (Home Office, 2014b).

6.4 The number of high net worth individuals granted entry clearance visas has been increasing year on year. Since the introduction of the Points Based System in 2008 and the changes made to this route, the number of Tier 1 (Investor) entry clearance visas issued to main applicants grew from around 100 a year to around 500 a year now. That said, if attracting these individuals is the main objective of the Tier 1 (Investor) route, it is difficult to establish a definite view on how well the route is performing without data on how many investors are choosing to go elsewhere than the UK.

6.5 We outlined in Chapter 4 that it is the investors themselves who benefit most from the route as presently constituted. The direct financial returns to investors are limited, partly as a result of the investment in gilts, but the non-financial benefits, such as the rule of law, security of assets, and access to a high quality education system, are significant. Indeed, the evidence we received from partners highlighted that financial considerations are very much secondary to non-financial considerations with British citizenship often as the ultimate prize. What is less clear is the extent to which UK residents benefit from the existence of the route, and even if they benefit at all. The evidence suggests Tier 1 investors invest mainly in gilts, partly as a result of the design of the route and the investment behaviour this incentivises. We argued in Chapter 3 that this is of little benefit to the UK economy: the UK Government is not reliant on this investment to fund the deficit in this way.

6.6 Furthermore, investment in gilts is a loan, not a gift. The investment as currently constituted is simply loaned to the Government, and is then returned to the investor after a given period. We also considered whether the presence of Tier 1 investors and their families, and the indirect spending by them, was sufficient in itself to benefit the UK economy and residents. We concluded that there was some benefit here, although it is difficult to quantify and perhaps not as significant as is asserted by partners.

6.7 The minimum investment threshold of £1 million has not been revised since the original investor route was introduced in 1994. The absence of direct benefit, and limited benefit associated with indirect expenditure, suggest that on current terms the Tier 1 (Investor) visa is under-priced and the UK could look to derive greater value from the initial investment.

6.3 Our recommendations and proposals

Minimum investment threshold

6.8 With perfect information it would be possible to estimate demand for the Tier 1 (Investor) route to assess at what investment threshold the benefit to the UK is maximised. In practice, this is not possible. Demand for this route is a function of five broad factors: the price; return on investment; non-financial drivers; stringency of the route’s rules and requirements; and competing offers from other countries. Determining the correct level of investment threshold would therefore be very difficult even with access to complete data on all five factors, which we do not have.

6.9 On balance, though, as the investment threshold has not changed since 1994, and as the Government regularly increases Tier 2 salary thresholds in line with average earnings, we recommend a similar revision of the Tier 1 (Investor) route. Based on the earnings inflation measure considered in Chapter 5 and the fact that the threshold would probably remain constant for the immediate future (i.e. at least the next five years), **we recommend that the minimum £1 million threshold be increased to £2 million.**

6.10 In addition, the benefit of this route to the UK economy could be greatly enhanced if potential investors were incentivised to invest in instruments other than gilts. We outline a number of alternative investment instruments in Chapter 5. We consider that widening the permitted investment types would enhance productive efficiency and deliver greater, and more tangible, benefits to UK residents. **We therefore propose that the current restrictions on permissible investment instruments are relaxed so as to permit wider investment activity**.

6.11 Partners have told us that the current topping up requirement incentivises investment in gilts, as they are seen as providing greater stability and thus requiring less additional investment if value declines. **We agree, and propose that the topping up rule is removed which, in turn, would mean that the requirement to provide quarterly valuations would no longer be necessary**. Instead, Tier 1 investors need simply provide evidence that they have made the required investment at the relevant point, and that the investment has not been deliberately withdrawn by the investor. This would permit Tier 1 investors to act in the same way as investors more generally, making investment decisions based on their appetite for risk and seeking to maximise the return on their investment. Any decline in value due to market conditions should not require the investor to top up.

6.12 That said, widening the permitted investment types and removing the topping up requirements may not be sufficient to drive investment away from gilts. One way to encourage wider types of investment would be to restrict the proportion of investment funds which could be invested in gilts, or remove the ability to invest in gilts altogether. An alternative approach would be to allow the market, and independent financial advisors, to determine which investments provide the best value to the investor. Given the modest benefit to the UK of investment in gilts, the Government will wish to consider whether to permit or limit investment in gilts.

6.13 We also considered whether permitting the investment sum to be sourced by way of a loan from a registered UK financial institution should be reformed. Partners told us that this is a little used method of sourcing funds, in large part due to the reluctance of UK registered financial institutions to lend for such purposes. We also consider that this provision does not add any significant value to the UK economy, as the funds are simply transferred from UK financial institutions to the UK Government via the investor. **We therefore propose that the provision permitting the investment funds to be sourced by way of a loan be removed.**

The premium route

6.14 We discuss in Chapter 5 how the higher investment thresholds are rarely used by potential investors. The incentives to do so are, we are told by partners, insufficient to encourage higher levels of investment in return for accelerated settlement. This provision was only introduced in 2011 and there is insufficient Management Information data available at the current time for us to fully assess demand. Despite the lack of official data we believe that the evidence we received from partners was consistent and compelling: the higher value provisions have attracted so far relatively little interest.

6.15 A case could therefore be made for removing this provision. However, we consider that a better alternative would be to enhance the offer such that it represents a premium route.

6.16 The premium route would continue to offer accelerated settlement for the main applicant, with a qualification period of two years. In addition, **we recommend that the Government relaxes residence requirements for those who make use of the premium route**, such that the individual need only be resident in the UK for a period of 90 days per annum, rather than 185 days as is currently the case. The Government may also wish to make provisions to ensure that the investor meets HMRC residence requirements, in order that the investor's UK based income remains subject to UK taxation. Residence requirements were a frequently cited issue with respect to the route, with almost all partners reporting that they were considered too onerous at present.

6.17 Setting a price for such a premium route is best determined through an auction. **We recommend that a limited number of premium route visas, perhaps of the order of 100, be issued each year, with interested applicants invited to submit a single, sealed bid for those entry clearance visas made available.**

6.18 The Government will wish to set a reserve price in order to ensure bids above the £2 million threshold. **We recommend that the reserve price be set at £2.5 million.** A bid of £2.5 million would be comprised of an investment of £2 million by the applicant – as under the standard route - plus a gift of £500,000 donated to the UK Government. In order to ensure that the donation constitutes a clear, tangible benefit to UK residents, **we recommend that the money be put into a specific good causes fund** rather than general revenue for the Exchequer. Any excess above the reserve price would also be put into the good causes fund. This surplus is equivalent to the philanthropic contribution discussed in Chapter 5.

6.19 It is important to note that a successful bid would not guarantee automatic entry clearance to the UK. Successful applicants would remain, as is the case now, subject to strict due diligence checks by the Government and financial institutions.

6.20 Equally, it is important to note that our recommendation for introducing an auction mechanism for this route still results in the investor gaining accelerated settlement only, as is the case now. We do consider though that halving the current residence requirement would enhance the route's attractiveness to high net worth individuals from across the globe.

6.21 We recognise that demand for the premium route may be further encouraged were the Government to consider aligning settlement qualification periods for main applicants and their dependants. This is a matter for the Government to consider and indeed the Government recently changed the policy on settlement rights for dependants. We therefore make no recommendation here.

6.22 Similarly, demand for the Tier 1 (Investor) route would undoubtedly increase were accelerated citizenship offered. It is important to recognise that nationality laws are quite separate, go well beyond our remit and are a matter for the Government, rather than us to decide.

Table 6.1 Summary of current Tier 1 (Investor) route requirements and our proposed revisions

Investment thresholds	Settlement qualification period	Residential requirements (minimum per annum)	Investment restricted to UK Government gilts or loan or share capital in UK registered companies (Y/N)	Investment required to hold value (topping up)(Y/N)
Current Tier 1 (Investor) route:				
£1 million	5 years	185 days	Y	Y
£5 million	3 years	185 days	Y	Y
£10 million	2 years	185 days	Y	Y
Our proposed Tier 1 (Investor) route:				
£2 million	5 years	185 days	N	N
Premium route	2 years	90 days	N	N
Auction (reserve price of £2.5 million)				

Notes: We outline the qualification criteria for citizenship at paragraph 2.24 and Table 2.2. These provisions remain unchanged and are not affected by our proposals.
Source: Migration Advisory Committee (2014)

6.4 Conclusions

6.23 The Government's commission asked that we *"consider whether the investment thresholds are appropriate to deliver significant economic benefits for the UK."* We are sceptical that the route, as currently constituted, does deliver significant economic benefits, though recognise that there is some gain to UK residents.

6.24 We also accept the argument that provided the Tier 1 (Investor) route does not do any harm (and it does not appear to), it is an important mechanism to demonstrate that the UK is open for business. This is a particularly important consideration in difficult times, where competition among nations to attract high net worth individuals is increasing, in part due to the need to drive economic growth or increase revenues.

Tier 1 (Investor) route

6.25 We consider that the UK offer is sufficiently attractive vis-à-vis other countries, including those who offer citizenship at relatively low cost. By contrast, we are much less certain of the benefits of the route to UK residents and believe the UK offer is currently under-priced. As such, we recommend some reforms which, we believe, would deliver much clearer benefits to the UK, whilst ensuring that the route remains attractive in an increasingly competitive international market.

6.26 We recognise that the reforms we suggest, particularly around increasing the minimum threshold, may serve to reduce demand for the Tier 1 (Investor) route. However, we consider that widening the permissible investment instruments, and the additional revenue which may be generated via the premium route, would likely ensure that the route delivers more tangible economic benefit for UK residents. It may also be the case that the recent closure of the Canadian investor programme will have a more significant impact on demand for the Tier 1 (Investor) route than our suggested reforms.

6.27 It may also be the case that any decline in demand for the Tier 1 (Investor) route is offset, to an extent, by an increase in demand for alternative routes, for example the Tier 1 (Entrepreneur) route. However, as we were not asked to examine this issue, we are not able to determine whether this would be the case.

Annex A Consultation

A.1 List of organisations/individuals that responded to the call for evidence

Avipa LLP

CS Global Partners

Department of Business, Innovation and Skills

Find Invest Grow

Fragomen LLP

Henderson Rowe

Henley & Partners

Invest UK

Kingsley Napley LLP

Knightsbridge Wealth

Laura Devine Solicitors

Lawrence Graham LLP

London & Capital

Lewis Silkin LLP

Magrath LLP

Mishcon de Reya

Newland Chase

Octopus Investments

Office of the First minister and Deputy First Minister, Northern Ireland

Price Waterhouse Cooper

Professor Alan Manning, London School of Economics

Tier 1 (Investor) route

Roger Gherson Solicitors

Sam Jacobs

Speechly Bircham LLP

UK Trade and Investment

Vestra Wealth

Westminster Wealth

and 10 responses from private individuals

A.2 Indicative list of organisations we met with/visited

2020 Chartered Accountants

Alan Boswell Chartered Financial Planners

Alexander Associates

Arbuthnot Latham & Co Limited

Arram Berlyn Gardner (ANG Group)

Australian High Commission, London

Axton

Baker & McKenzie

Barclays

Berry Asset Management

Black Mane Wealth Solutions

Brice Amery Capital Ltd

British Futures Legal

Brown Shipley Private Banking

Buzzacott LLP

Carter Backer Winter

Carter Thomas Solicitors

Cazenove Capital Management Ltd

Citizenship and Immigration, Canada

City of London Corporation

Claridge Capital

CS Global Partners

David Tait, Corporate Financier

Deloitte

Department of Business, Innovation and Skills

Deutsche Bank

EY

Find Invest Grow

Fladgate LLP

Fragomen LLP

Frank Hirth PLC

GAM London Limited

Graeme Kirk, solicitor

Greater China London

Henderson Rowe

Henley & Partners

Her Majesty's Revenue and Customs

Her Majesty's Treasury

HW Fisher & Company

Intelligent Tax Solutions

Invest UK

JO Hambro Investment

JP Morgan

Killik & Co LLP

Kingsley Napley LLP

Tier 1 (Investor) route

Kleinwort Benson Ltd

Laura Devine Solicitors

London & Capital

Lubbock Fine Chartered Accountants

Mayor of London's Office

Mercer & Hole Chartered Accountants

Migration Policy Institute

Mishcon de Reya

Monica Karir Solicitors

Moore Stephens LLP

Morgan, Lewis and Bockius LLP

Octopus Investments

Paul Gulbenkian, Immigration consultant

PricewaterhouseCoopers

Professor Alan Manning, London School of Economics

Quilter Cheviot Investment Management

Radcliffe & Newlands Ltd

Range Developments

RBC Wealth Management

Saffery Champness

Sam Jacobs

Severin Finance Ltd

Simply English

SL Private Equity Fund Services

Smith and Williamson Investment Management

Speechly Bircham LLP

Squire Sanders LLP

UBS

UK Trade and Investment

US Citizenship and Immigration Services, Washington

Vestra Wealth

Westminster Wealth

Wilder Coe LLP

and telephone calls with 4 Tier 1 investors

Abbreviations

AI	Angel Investment
BIS	Department for Business, Innovation and Skills
CPI	Consumer Price Index
EEA	European Economic Area
EIS	Enterprise Investment Scheme
EU	European Union
FCA	Financial Conduct Authority
FDI	Foreign Direct Investment
FSA	Financial Services Authority
FTSE	Financial Times Stock Exchange
GDP	Gross Domestic Product
HEI	Higher Education Institution
HMRC	Her Majesty's Revenue & Customs
HMT	Her Majesty's Treasury
HNWI	High Net Worth Individual
ILR	Indefinite Leave to Remain
IPS	International Passenger Survey
LFS	Labour Force Survey
LTIM	Long Term International Migration
MAC	Migration Advisory Committee
MI	Management Information
NHS	National Health Service

NI	National Insurance
NIESR	National Institute for Economic and Social Research
ONS	Office for National Statistics
PAYE	Pay As You Earn
PBS	Points Based System
PLC	Public Limited Company
PSW	Post Study Work route
RPI	Retail Price Index
SDLT	Stamp Duty Land Tax
SEIS	Seed Enterprise Investment Scheme
SME	Small and Medium sized Enterprise
UK	United Kingdom
UKBA	UK Border Agency
UKTI	UK Trade and Investment
US	United States
VAT	Value Added Tax
VCT	Venture Capital Trust

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