Canadian citzenship also has a price

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Canadian nationals fleeing Lebanon register their names with Canada's embassy staff last July in Beirut.

As the Minister of Finance contemplates final changes to his budget, he will no doubt be concerned about fairness of the tax system -- such as, income splitting between spouses, tax rates on middle-income individuals, double taxation of corporate income, and tax deferral on capital gains. He might also reflect on the connection between the costs and benefits of being a Canadian resident or citizen.

During the Israeli invasion of Lebanon in 2006, Canadian, American, British and Scandinavian governments evacuated their citizens from the war zone. Canada evacuated 15,000 of its citizens from Lebanon at a cost of $85-million. Approximately 7,000 of the evacuees then promptly returned to Lebanon after hostilities ceased.

There are nearly 2.7 million Canadian citizens who live outside the country -- half of whom are permanent residents abroad. Approximately 700,000 Canadians -- including the Leader of Her Majesty's Loyal Opposition -- hold dual citizenships and passports.

We tax Canadian residents on their worldwide income, regardless of where they earn their income. Canadian citizens, however, are not taxable if they are not residents of Canada. Who should bear the cost of protecting nonresident Canadian citizens in times of international turmoil?

Countries generally use one or both of two primary factors to tax individuals -- residence and citizenship. We determine an individual's residence by his economic and social ties with the country. For tax purposes, residence is more than mere physical presence in the country. Thus, a person is taxable in Canada if she has sufficient economic and social ties with the country, even though she may be physically absent from the country for the entire year.

Taxable residence is essentially a question of fact and law. Unfortunately, there is no uniformity between countries in the manner that they apply the facts. To be sure, the mechanical tests are the easiest to apply. For example, a person is usually resident in a country if he or she sojourns a certain minimum number- the most usual number is 183 -- days in the country. Unfortunately, countries cannot even agree on what is a "day" for tax purposes. In the United Kingdom, for example, a day is from midnight to midnight. In Canada and the United States, any part of a day is considered a full day.

Although many countries use the 183- day per year test, there is an increasing shift toward applying the test based on cumulative-presence, rather than on a calendar year. For example, the United Kingdom uses 360 days over four years to determine "ordinary residence"; Ireland uses a 240-day test over two years; Norway uses 270 days over three years. The United States uses a comprehensive formula based on a weighted average of the number of days over three years.

Citizenship-based taxation focuses upon political -- rather than economic and social -- affiliation. A person becomes a citizen after taking or inheriting allegiance to the country in which he or she claims citizenship. Very few countries, however, tax based on citizenship. The most notable exception is the United States. The underlying theory of citizenship-based taxation is that the citizens of a country are entitled to its protection, regardless of where they live. Hence, they should share in the financial burden of the country.

To be sure, one may renounce citizenship to escape the tax net. Most U.S. citizens are not willing to relinquish their citizenship merely to lower their tax bill. Even if they were willing to relinquish citizenship, they cannot do so easily or conveniently. A U.S. citizen who gives up his citizenship for the principal purpose of avoiding U.S. taxes continues to be liable for U.S. taxes for 10 years. Further, the U.S. immigration service can bar any individual who has given up his U.S. citizenship for tax avoidance reasons from entry into the United States. Thus, American citizenship has a price of financial obligation, regardless of where the individual resides.

Canada has an inconsistent history in its treatment of individuals for tax and benefit purposes. We are generous when it comes to granting resident status and providing rescue services to citizens, but stringent in providing benefits to residents who visit abroad for extended periods. For example, we require only three years -- compared with five years for Britain and the United States, eight years for Germany -- of residence in Canada in order to qualify for permanent resident status. However, the provinces deny medical coverage to residents if they are physically absent from the country for four-to-six months.

Although the federal and provincial governments tax absentee Canadian residents on their worldwide income, they will not extend medical coverage during extended absences from the country. At the same time, however, we will readily provide rescue services to non-resident citizens who do not pay any Canadian taxes. Thus, there is no coherent tax link between the cost and benefits of being Canadian. In order to be fair, non-resident citizens should contribute toward the financial benefits of holding Canadian passports.

The price of citizenship is to balance between costs and benefits.

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