



Powerful “Triple Dipping” Benefits of Donating Flow-Through Shares to Charity

Sales of Canada’s units of flow-through limited partnerships (which purchase flow-through shares) are so strong they’re often selling out before they even close. By deferring taxes, converting income to capital gains, and then potentially using those gains to offset other realized capital losses, flow-through shares and limited partnerships have gained importance as a tax-planning tool.

The main appeal of flow-through shares is their ability to convert current taxable income into capital gains taxable at some point in the future (for more detailed information on the direct tax benefits please refer to the Mackenzie brochure “Understanding Flow-Through Limited Partnerships”).

Flow-through shares are an attractive package for individual investors and for charities seeking to increase their level of donations. Donating flow-through shares is a win-win for both charities and Canadians who wish to donate.

“Triple Dipping” using flow-through shares or limited partnerships coordinates a number of strategies:

- The deductions available on flow through shares
- The elimination of the capital gain on donating qualifying appreciated securities (flow-through shares typically have a zero cost base)
- Federal and provincial donation tax credits.

Deductions available on flow-through shares

The federal government provides 100% deductibility with certain exploration or development expenses for Canadian resource companies. Some provinces provide additional benefits. This amount is generally deductible against any source of income. These allocations reduce the adjusted cost base of the investment.

Elimination of the Capital Gain on Donating Qualifying Appreciated Securities

Many taxpayers are still unaware that the federal government has substantially enriched the tax benefits associated with donating “publicly listed securities” (which are securities listed on North American Stock Exchange or units of a Canadian mutual fund). The federal budget of May 2, 2006 eliminated the capital gain on any publicly listed securities that are donated to a registered charity (excluding private foundations). Because flow-through shares typically have a low or nil-adjusted cost base there will generally be a capital gain when they are sold. Investors can avoid tax on that gain and help a charity at the same time by donating the shares.

“Triple Dipping” tax benefits obtained on donations of flow-through shares do not circumvent any tax rules or take advantage of any loopholes in the Tax Act. Unlike aggressive art flips and other donation schemes that the government has challenged, flow-through investments have stood the test of time with the government creating specific provisions in the Income Tax Act.

Reduced to its essentials, the following table is a hypothetical example of how the ‘triple dipping’ might work. In this example, the donor (taxable at the top marginal rate of 46%) purchases flow-through shares in year one for \$100,000 and claims the \$100,000 tax benefit relating to resource deductions. In year three the investor then donates the investment in-kind to charity.

	Investment Breaks Even	Investment Gains 25%	Investment Loses 25%
Cost of investment	\$ 100,000	\$ 100,000	\$ 100,000
Initial tax benefits	(\$ 46,000)	(\$ 46,000)	(\$ 46,000)
Net cost of investment	\$ 54,000	\$ 54,000	\$ 54,000
Fair market value at date of donation	\$ 100,000	\$ 125,000	\$ 75,000
Adjusted cost base at date of donation	\$ 0	\$ 0	\$ 0
Capital Gain	\$ 100,000	\$ 125,000	\$ 75,000
Inclusion rate for gifts of publicly traded Security	0 %	0 %	0 %
Taxable capital gain	\$ 0	\$ 0	\$ 0
Tax savings on donation of shares	(\$ 46,000)	(\$ 57,500)	(\$ 34,500)
Total tax savings	\$ 92,000	\$ 103, 500	\$ 80,500
Net cost of donation	\$ 8,000	(\$ 3,500)	\$ 19,500

Assumptions:

- The flow-through shares issued by a public company become free trading shares at the time of disposition
- The investor's total donations in the year are assumed to be less than 75% of the investor's total net income for the year
- The investor is donating the mutual fund shares to a qualified donee
- The calculation ignores a lower tax credit for the first \$200 of qualified charitable gifts made by the investor in the year

Provincial and other considerations:

- The tax benefits described above may be limited by the alternative minimum tax.
- In provinces such as Ontario, B.C., Nova Scotia, New Brunswick, Newfoundland, Labrador and P.E.I., an investor who invests in Canadian mining sector resource companies may be able to donate these shares for free on an after-tax basis or may actually be ahead on an after-tax basis. This is because of the availability of an investment tax credit ("super" flow-through shares) that relates to certain qualifying expenditures.

In evaluating tax shelters, it is important to evaluate the tax shelter in the same way as a non-tax shelter investment. Legal and accounting advisors should be consulted and the investment should be examined from a business risk and return point of view.

The information provided is general in nature and is intended to highlight various tax planning issues. This information should not be relied upon, nor construed as legal or tax advice. Readers should consult with their advisors, lawyer, and tax professionals for advice before employing any of these strategies.

Mackenzie Regional Sales Offices

TORONTO

Mackenzie Financial Corporation
150 Bloor Street West, Suite M111
Toronto, ON M5S 3B5
T: 416 922 5322
1 888 653 7070
F: 416 922 5660
1 866 766 6623
E: service@mackenziefinancial.com

CALGARY

Mackenzie Financial Corporation
Bankers Hall
855-2nd Street S.W., Suite 3810
Calgary, AB T2P 4J8
T: 403 205 4500
1 888 650 4500
F: 403 205 4501
E: calgary@mackenziefinancial.com

MONTREAL

Mackenzie Financial Corporation
1250 Blvd. René-Lévesque West
Suite 4010
Montréal, QC H3B 4W8
T: 514 937 1505
1 800 363 4357
F: 514 937 8281
E: montreal@mackenziefinancial.com

VANCOUVER

Mackenzie Financial Corporation
HSBC Building
1440-885 West Georgia Street
Vancouver, BC V6C 3E8
T: 604 685 6952
1 800 944 6225
F: 604 257 6609
E: bc@mackenziefinancial.com