

# THE TAX PLANNING ADVANTAGES OF FLOW-THROUGH INVESTING

## WHAT IS FLOW-THROUGH INVESTING?

1 Canadian resource companies need capital for exploration



Limited initial revenue.  
Significant Expenses.  
Permitted to monetize the write-offs they can't use.

2 To encourage Canadian resource exploration, the government permits qualifying companies to "flow-through" their exploration expenses to investors, for investor use as a tax offset

EXPENSES

Protected B when version 3	
Attach your Schedule 1 (federal tax) and Form 428 (provincial or territorial tax) here. Also attach here any other schedules, information slips, forms, receipts, and documents that you need to include with your return.	
<b>Net Income</b>	
Enter your total income from line 150	150
Registered pension plan deduction (line 20 of all T4 slips and box 054 of all T4A slips)	206
RRSP/RRRSP/Registered Pension Plan (RRPP) deduction (see Schedule 7, and attach receipts)	209
RRPP employer contributions (amount from your RRPP contribution receipts)	206
Deduction for elected split pension amount (attach Form T1335)	210
Annual union, professional, or fees dues (line 44 of all T4 slips and receipts)	212
<b>Income &amp; Form RC261, whichever applies</b>	<b>222 +</b>
Exploration and development expenses (attach Form T1229)	224 +
<b>Adjusted expenses</b>	<b>229 +</b>
Mining expenses	219
Geographical costs	Total 336
Charitable and interest expenses (attach Schedule 4)	221
Charitable or RRSP/RRRSP contributions on self-employment and other earnings (see Schedule 8 or Form RC261, whichever applies)	222
Exploration and development expenses (attach Form T1229)	224
Other exploration expenses	225
Charitable residence deduction	231
Other deductions - Specify	232
Add lines 207, 208, 210 to 204, 205, 207, and 232	233
Line 150 minus line 233 (if negative, enter "0")	234
This is your net income before adjustments.	
Social benefits repayment (if you reported income on line 113, 119, or 140, see line 235 in the guide)	235
Line 234 minus line 235 (if negative, enter "0")	236
If you have a spouse or common-law partner, see line 236 in the guide. This is your net income.	
<b>Taxable Income</b>	
Canadian Pension personal and public deduction (line 43 of all T4 slips)	244
Employer home ownership loan deduction (line 37 of all T4 slips)	245
Charitable and interest deductions	246
Other payments deduction (if you reported income on line 147, see line 250 in the guide)	247
Limited partnership losses of other years	248
Reported losses of other years	249
Net capital losses of other years	250
Capital gains deduction	251
Northern residents deduction (attach Form T2202)	252
Additional deductions - Specify	253
Add lines 244 to 256	257

3 Investors who invest in a Flow-Through Limited Partnership (LP) may deduct the full investment from their income in the year the investment is made.



Investors can access the flow-through market by purchasing shares directly, or by investing in a flow-through Limited Partnership (LP). Flow-through Limited Partnerships are investment vehicles that add three important benefits to the tax advantages of Flow-Through investing:

- #1 financial planning advantages;
- #2 professional management;
- #3 access to a broad range of flow-through issues.

## FINANCIAL PLANNING ADVANTAGES OF FLOW-THROUGH LPs FOR DIFFERENT INVESTORS

"I HAVE CAPITAL LOSSES THAT I HAVEN'T USED YET"

"I'M MOVING TO A LOWER MARGINAL INCOME TAX BRACKET"

"I HAVE A LONGER-TERM INVESTMENT HORIZON (5+ YEARS)"

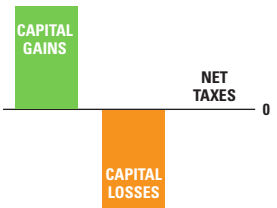
4 In 2 years or less (depending on the duration of the LP), the Limited Partnership terminates and the investment is rolled into a designated mutual fund corporation. The investor may now sell the fund, where their taxable capital gain is limited to 50% of the proceeds.

Investing in a Flow-Through LP effectively converts income into capital gains, so investors can take advantage of any unused capital losses they are carrying when they sell their shares in the mutual fund corporation, thereby reducing their taxable income.

An investor who buys shares in a Flow-Through Limited Partnership decides to maintain their exposure to the resource sector and to defer their taxes further. As a result, they do not sell their shares of the mutual fund corporation. When the investor retires and is in a lower marginal tax bracket, they sell the fund and trigger capital gains taxes on 50% of their proceeds, at their new lower marginal tax rate.

Similarly, with a longer-term investment time horizon, an investor may be well-positioned to take advantage of a deferred tax strategy that allows their investment to compound until one of several events occurs:

- they experience capital losses on other investments which they can now use to offset their capital gain;
- they enter a lower marginal tax bracket.



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