

# 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

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.	
Net income	150
Personal exemption	206
Registered pension plan deduction (line 20) of all T4 slips and box 032 of all T4A slips	207
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 T1332)	210
Annual union, professional, or fee dues (line 44 of all T4 slips, and receipts)	212
Charitable or Form HC381, whichever applies	222 +
Exploration and development expenses (attach Form T1229)	224 +
Research expenses	225 +
Moving expenses	219 +
Spouse payments made	218
Charitable charges and interest expenses (attach Schedule 4)	221
Charitable or RRSP/RRRSP contributions on self-employment and other earnings (attach Schedule 8 or Form RC381, whichever applies)	222 +
Exploration and development expenses (attach Form T1229)	224 +
Other employment expenses	223 +
Charitable deduction	221
Other deductions - Specify	222
Add lines 207, 208, 210 to 204, 205, 207, and 212	219 +
Line 152 minus line 222 (if negative, enter "0")	214
Social benefits repayment (if you reported income on line 113, 119, or 140, see line 235 in the guide)	218
Line 214 minus line 215 (if negative, enter "0")	214
If you have a spouse or common-law partner, see line 236 in the guide	214
This is your net income	214
Taxable income	214
Canadian Forces personnel and police deduction (line 43 of all T4 slips)	244
Employer home ownership loan deduction (line 37 of all T4 slips)	249
Security expense deduction	249
Other payments deduction	250 +
If you reported income on line 147, see line 250 in the guide	250 +
Limited partnership losses or other gains	251 +
Reported losses of other years	252 +
Net capital losses of other years	253 +
Capital gains deduction	254 +
Northern residents deduction (attach Form T3255)	255 +
Additional deductions - Specify	256 +
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

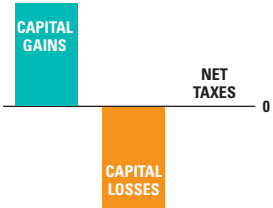
**"I HAVE CAPITAL LOSSES THAT I HAVEN'T USED YET"**

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

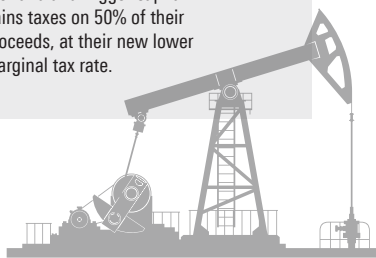
**"I HAVE A LONGER-TERM INVESTMENT HORIZON (5+ YEARS)"**

**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 by doing a "tax-free rollover" into a mutual fund corporation, which then 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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