

THE TAX PLANNING ADVANTAGES OF FLOW-THROUGH INVESTING

WHAT IS FLOW-THROUGH INVESTING?

1

Canadian resource companies need capital for exploration.

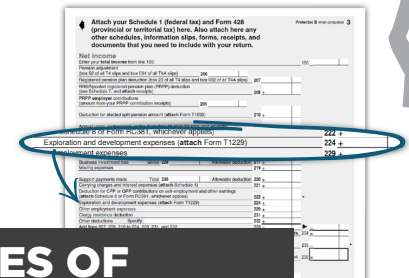


2

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.

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.

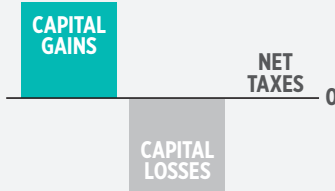


FINANCIAL PLANNING ADVANTAGES OF FLOW-THROUGH LPS FOR DIFFERENT INVESTORS

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.

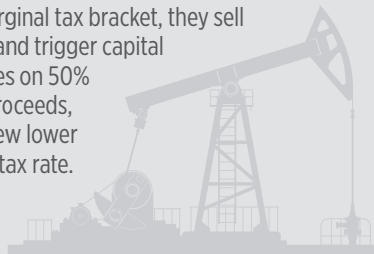
“I HAVE CAPITAL LOSSES THAT I HAVEN’T USED YET”

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.



“I’M MOVING TO A LOWER MARGINAL INCOME TAX BRACKET”

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.



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

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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