

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
Registered pension plan deduction (line 20) or all T4 slips and box 032 of all T4A slips	206
RRSP/RRRSP/Registered pension plan (RRPP) deduction (see Schedule 7, and attach receipts)	209
RRSP/RRRSP contributions (amount from your RRPP contribution receipts)	206
Deduction for elected spousal pension amount (attach Form T1332)	210
Annual union, professional, or labor dues (line 44 of all T4 slips and receipts)	212
Expenses of Form RC281, whichever applies	222 +
Exploration and development expenses (attach Form T1229)	224 +
Charitable contributions	225 +
Charitable expenses	229 +
Charitable contributions made	230 +
Charitable expenses and interest expenses (attach Schedule 4)	231 +
Charitable contributions for 2017 or 2018 (contributions on self-employment and other earnings) (see Schedule 8 or Form RC281, whichever applies)	232 +
Exploration and development expenses (attach Form T1229)	233 +
Other exploration expenses	234 +
Charitable contributions	235 +
Other deductions	236 +
Add lines 207, 208, 210 to 204, 205, 207, and 232	237 +
Line 150 minus line 237 (if negative, enter "0")	238 +
Social benefits repayment (if you reported income on line 113, 119, or 140, see line 235 in the guide)	239 +
Line 238 minus line 239 (if negative, enter "0")	240 +
If you have a spouse or common-law partner, see line 236 in the guide. This is your net income	241 +
Canadian Pension personal and public deduction (line 43 of all T4 slips)	244
Employer's home ownership loan deduction (line 37 of all T4 slips)	245
Security expense deduction	246
Other payments deduction	247
If you reported income on line 147, see line 250 in the guide	248
Limited partnership losses of other years	249
Reported losses of other years	250
Net capital losses of other years	251
Capital gains deduction	252
Northern residents deduction (attach Form T2202)	253
Additional deductions	254
Add lines 244 to 254	255

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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