

# Flow through mining shares may revolutionize the way you give!

**B**y now you may be aware of the unique structure of donating flow-through shares to a Charity or Private Foundation instead of just your ordinary cash; in return creating more tax credits and putting money back in your pocket.

You may believe that fulfilling your charitable desires, while making a profit sounds too good to be true. If so, hold that thought – I had the privilege of speaking with tax expert Graham Turner LLB about this donation structure and his opinion may steer you in a different direction.

**Jennifer:** Hi Graham, explain to me why an individual saves using this donation structure, how does it actually work?

**Graham:** The structure is a combination of two well-known tax preferences. Flow-through shares permit a Canadian public resource company to give up Canadian Exploration Ex-

penses in favour of the first owner of those shares. In the case of mining companies there are also additional tax credits. The result is a lower after-tax investment in the resource company, which can be as low as 40 cents on the dollar. Of course, the offset is the share has no cost base, so when the shares are sold there is a larger capital gain. But, if the shares are donated to a Charity, there is no capital gain, but the donor still gets a tax write-off based on the value of the shares. So there are two different tax deductions. The actual tax saving depends on many factors, including the province of the donor, the market price of the shares and other factors.

**Jennifer:** So these are not made up numbers, no magical formula here?

**Graham:** There is no magic here. In fact the structure has been approved by CRA in a number of published Income Tax Rulings. This is not some scheme based on fictional values. It

is a market driven, CRA approved method of reducing the after-tax cost to donors.

**Jennifer:** I have learned that this structure works best for wealthy individuals. Why is that?

**Graham:** Unfortunately this structure only works well for donors in the highest marginal tax bracket. As well, the donor must have sufficient income at that rate to use all the tax deductions.

**Jennifer:** Why does our Government approve of this?

**Graham:** The plan benefits two sectors of our society that the government has decided to support; namely the resource industry and the charitable sector. As you know, Jennifer, wealthy Canadians as a group lag far behind their counterparts in the U.S and Europe in terms of giving to a Charity or Private Foundation. Even with this plan, the donor still has given up cash- just not as much for the same donation.

**Jennifer:** Does this structure put a Charity or Foundation at any risk?

**Graham:** I cannot emphasize too strongly that the Charity/Foundation has no risk – tax or otherwise. That is because there is a willing purchaser lined up to buy the shares from the Charity/Foundation for hard cash the same day of the donation, so the Charity has no investment risk. The Charity gives a receipt based on the cash it receives from this third party, not on some risky appraised value.

**Jennifer:** Give us a comparison to think about. What would the after-tax cost be on a \$1,000,000 donation if this structure were used?

**Graham:** In the right circumstances, the after-tax cost of giving can be as low as 15%. That is, the net cost to the donor would be \$150,000 for the donor's favourite Charity/Foundation to

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get \$1,000,000 in cash. More realistically, the after-tax cost of 20% can be achieved.

Jennifer: Why would a Charity or Foundation accept these types of donations, how do they benefit?

Graham: Hopefully donors will give more, due to savings.

Jennifer: What are the disadvantages of this structure?

Graham: There are several disadvantages. The resource company and the final cash buyer of the shares must be lined up in advance. Neither will likely be willing to commit to a financing of less than \$1 million and more likely \$2 million. So you must have an investor, or group of investors that can make that kind of commitment and use the resulting tax deductions.

Second, the initial cash cost to the prospective donor is greater than the final cash the Charity will receive. Let me explain. Suppose the Charity is to receive \$1 million in cash and the

normal market price of the resource company's share is \$1.00. Because they are giving up their tax deduction to investors, resource companies always issue flow-through shares above market, say at \$1.15, in this case. In addition, the final cash buyer (from the Charity/Foundation) will only buy the shares at a discount. So the donor would have to write a cheque for the flow-through shares of \$1,350,000 (1,000,000 divided by .85 x 1.15) in order that the Charity/Foundation receives \$1,000,000 in cash. With transaction fees, the final number will be closer to 1.5 million.

To sum up Graham Turner, this isn't perfect for everyone, but it does seem like a clever strategy to use if you're a wealthy individual.

I have to wonder if some people will be skeptical, questioning the donor's motives- is the donation being made for tax purposes only?

Personally I don't think it's terrible to have the best of both worlds. In our day-to-day lives we do our best in try-

ing to save a buck or two, so why not use the same strategy when donating? After all, Charities and Foundations may receive more funds because of this. I'm picturing myself as a wealthy individual; if this donation structure was brought to my attention and these savings were in my reach, I may just up my ante!



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