



Thursday » November
20 » 2008

Canadian flow-through shares can help charities and donors

Peter Nicholson Jr.
Citizen Special

Wednesday, November 12, 2008

With trillions of dollars in value lost in global stock markets since September, we are all feeling poorer.

The severe drop in stock markets has also impacted charitable giving. Charities are experiencing a decline in donations, and there is concern that the trend will continue.

Donors would prefer not to gift public stock where losses in blue chip rated stocks have been in the range of 30 per cent to 50 per cent and, in the hardest hit category of the resource sector and some in the financial sector, a staggering drop of 70 per cent in market value.

However, for those donors that want to fulfill their philanthropic commitments in a way that will benefit the donor, benefit the charity and benefit the junior resource industry there is a tried and tested product. That product is a Canadian flow-through share.

Flow-through shares have been in the Canadian tax code since 1954, three years longer than a similar tax assisted investment, the RRSP.

These flow-through shares are issued by junior mining and oil and gas companies who "flow-through" their tax deductible exploration expenses that they cannot use, to individuals and corporations who are permitted to deduct these expenses against their ordinary income.

In return, the taxpayer investor provides needed investment cash to the resource company for exploration to aid in the discovery and production of mines and wells. The risk in exploration is supported by the government that provides 100 per cent tax deductions on the money you invest, in the same way it supports RRSPs for tax purposes.

Here is why flow-through shares are so good for donors, charities and resource companies - suppose you pledged to donate \$1 of your net worth in stock to charity. Unfortunately, because of market turmoil that \$1 of stock is now worth 70¢. You now want to wait until your stock rebounds, which may take many months to several years.

But your charity is counting on your pledge and you know during these difficult times your charity needs your help more than ever. However, writing a cheque for charitable giving is now the least efficient way to donate especially if your gift is substantial because of changes in the tax law in 2006 that exempted capital gains on donations of public stock.

The more efficient and tax effective method that meets all government objectives is as follows: First, you write a cheque for \$2 and buy a diversified limited partnership portfolio of 25-40 public flow-through stocks chosen by resource analysts and offered

through a financial company like WCPD. Assuming a 50 per cent top marginal tax rate for ease of calculation, you receive a 50 per cent tax saving or \$1 in tax saved. From that \$2 investment, approximately 30¢ in fees is subtracted to pay the flow-through resource companies and the financial company to create and wind-up the investment.

Thus, your portfolio of flow-through shares starts trading at a value of \$1.70 with your after-tax cost just being \$1. You are able to sell for cash or donate the portfolio to your charity at the earliest by April 2009 and the latest December 2009 in the WCPD structure (most flow-throughs have a hold period of two years). If the portfolio has a zero per cent return, your charity would receive \$1.70 instead of the \$1 if a cash donation were made (a significant 70 per cent more). A loss of 70¢ in the market during the hold period would equate to a break-even value of a \$1 cash donation (or a 41 per cent loss). However losing 41 per cent off a diversified portfolio of resource stocks from already depressed levels in November in a short timeframe is highly unlikely.

Of course, the \$1.70 portfolio value could increase as well to \$2 or beyond, providing your charity with a donation 100 per cent higher than the \$1 cash donation comparison. And the donor receives 100 per cent more in tax savings or a total of \$2 in tax savings on the \$2 investment. Since 1996, there have been 165 issued flow-through share portfolios with an average return of a positive six per cent.

The bottom line is that investing in flow-through shares is a win for all concerned - the Canadian resource industry, your favourite charity and you, the taxpayer, investor and donor.

Peter Nicholson Jr. is Founder of WCPD (Wealth Creation Preservation & Donation Inc.) and can be reached at peter@wcpd.com or 613-596-3277.

© The Ottawa Citizen 2008

CLOSE WINDOW

Copyright © 2008 CanWest Interactive, a division of [CanWest MediaWorks Publications, Inc.](#) All rights reserved.
CanWest Interactive, a division of [CanWest MediaWorks Publications, Inc.](#) All rights reserved.