

Flow-through mining shares can produce charitable bonanza



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Many years ago, a 10-year-old boy entered a coffee shop and sat down. My aunt, a waitress at the time, took his order. "How much is an ice cream sundae?" he asked.

"Fifty cents," she replied. He took some coins from his pocket and studied them.

"Well, how much for a plain dish

of ice cream?" he asked.

By now, more people were waiting for a table and she was growing impatient.

"Thirty-five cents," she abruptly replied.

The boy again counted his coins. "I'll have the plain ice cream," he said.

She brought the ice cream, put the bill on the table, and walked away. The boy finished the ice cream, paid the cashier and left. When my aunt came back, she began to cry as she wiped down the table. There, placed beside the empty dish, were three nickels. You see, the little boy couldn't have the sundae, because he wanted enough left over to leave her a tip. Now, that's sacrificial generosity —

and it was greatly appreciated.

This year, think about your own generosity — particularly in your charitable giving. And while you're at it, you might as well use the tax rules to your advantage. Consider buying flow-through shares — there's a special opportunity available.

The resource mining industry in Canada has been given special treatment under Canadian tax law to make it easier for the industry to raise capital — by issuing flow-through shares to investors.

If you invest in flow-through shares, the company enters into an agreement with you to incur Canadian exploration expenses (CEE) or Canadian development expenses (CDE) in an amount equal to the

cash you paid for the shares. The company also agrees to renounce and flow through to you the expenses incurred, so the CEE and CDE expenses are deemed to be your expenses, not the company's.

The result? You're able to claim a deduction for the full amount of the money invested, with most of the deduction (often about 90 per cent) falling in the year you make the investment, and the balance being deductible in the second and third year. For tax purposes, your flow-through shares will generally have an adjusted cost base of zero.

By now, you may be aware that the federal budget of May 2 changed the tax law to eliminate the capital gain on any publicly traded shares that you donate to a

registered charity (excluding private foundations) after May 1, 2006. Because flow-through shares typically have a zero adjusted cost base (ACB), there will generally be a capital gain when you sell them. You can avoid tax on that gain, and help a charity at the same time, if you donate the shares.

Check out the math; it's quite amazing: Suppose you invest \$10,000 in flow-through shares. You'll save approximately \$4,600 in taxes from the \$10,000 deduction you'll be entitled to (assuming a marginal tax rate of 46 per cent). If you donate those shares to charity after two or three years, when the development is completed, and we assume the shares are still worth \$10,000, you'll pay no tax on the

capital gain (the gain results from your ACB being zero).

You'll also be entitled to a donation tax credit for the \$10,000 value of the shares, which will save approximately \$4,600 in tax. So, you paid \$10,000 for the shares, got \$4,600 back in tax savings from the deduction, and \$4,600 from the donation tax credit, leaving a net out-of-pocket cost of just \$800. That is, a \$10,000 donation to charity cost you just \$800. That's what I call charitable arbitrage.

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