

# **Flow-through share donations**

**Donating flow-through shares is a tax-effective option because it can allow you to reduce the cost of your donation to around 1%. It's a strategic way to contribute to a cause that's close to your heart.**

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## Demystifying donations of flow-through shares

- Flow-through shares are issued by mining, gas and oil companies to finance their expenses of exploration.
- The governments of Quebec and Canada offer significant tax incentives to encourage these exploration projects, financing it through the sale of these shares.
- Tax incentives are available to private individuals in the form of tax credits, creating a resale market to institutional investors not eligible for tax credits.
- Financial arrangements to simplify the purchase and resale procedure and eliminate market risk are offered through various financial intermediaries.
- Three scenarios are possible:
  - Purchase and donation of shares to an organization charity (cost of the donation: +/-15%).**
  - Immediate purchase and resale without donation (return :+/-30%).**
  - Combination of scenarios 1 and 2 (cost of the donation almost nil, see example on the back).**
- High taxable incomes are necessary to be able to apply large tax credits (verify also the constraints of taxation minimum replacement in Quebec).
- An advance of 2 to 3 times the amount of the donation must be made for several months.
- There is a risk (uncommon) that an issuing company may not be able to meet its obligation to carry out the exploration expenditures, thereby causing the credits to be withdrawn. This risk can be mitigated by due diligence and by diversifying participation in issuances from different companies.

<b>Donation example</b>	Mr. Heartwell wants to make a donation of \$50,000 to the Foundation. A sizeable amount of his income is taxed at a combined rate of 53.31%, and the total amount of the donation	is subject to a combined tax credit rate of 53.31%. By choosing to make a donation of flow-through shares, Mr. Heartwell will reduce the cost of his donation to 1%.
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### For a donation of \$50,000

Year 1: year the donation is made

Year 2: year after the donation is made

### The transaction: purchase of shares for donation and investment

A	Purchase of flow-through shares for donation	\$(112,927)
B	Purchase of flow-through shares for investment	\$(42,071)
<b>C</b>	<b>Total shares purchased</b>	<b>\$(154,998)</b>
D	Net proceeds from the sale of the flow-through shares for investment (on closing, including fees)	\$24,460
<b>E</b>	<b>Net disbursement by the donor at the close of the transaction (C + D)</b>	<b>\$(130,538)</b>

### Net donation received by the Foundation

F	Acquisition value of donated shares	\$112,927
G	Value of buyback of shares to be donated by the intermediary (market value for issuance of receipt)	\$65,655
H	Net fees paid to the intermediary by the Foundation	\$(15,655)
<b>I</b>	<b>Net total of the donation received by the Foundation (G - H)</b>	<b>\$50,000</b>

### Cost of donation

J	Net disbursement by the donor at the close of the transaction (E)	\$(130,538)
K	A Tax benefits derived from the renunciation of Canadian Exploration Expenses (CEE) for all shares (C)	\$90,612
L	Exploration Investment Tax Credit (ITC) for all shares (C)	\$23,250
M	Donation tax credit (G x 53.31%)	\$35,001
N	Capital gains tax owed federally ((D + G) x 27.56% x 50%)	\$(12,418)
O	Taxes payable on federal ITC income inclusion (year 2) (L x 27.56%)*	\$(6,408)
<b>P</b>	<b>Cost of donation* (E + K + L + M - N - O)</b>	<b>\$(501)</b>

\*The inclusion amount may differ if the program was repeated in year 2 by the donor

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## Next steps

- Contact the Foundation so we can help you through the process.
- Speak to your tax advisor to find out if this type of gift is appropriate for your situation. The Foundation can recommend professionals specialized in this field on request.
- The next time flow-through shares for donation purposes become available, you can subscribe through a market intermediary via a series of pre-established transactions, after which you will be able to make your gift to the Foundation.
- Through the market intermediary, the Foundation will immediately sell the shares received to an institutional buyer at a pre-established price.
- You'll receive tax benefits associated with the purchase of flow-through shares as well as a tax credit for the value of the donation, which you can apply to your next income tax return or use to reduce your quarterly tax payments.

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## Advantages

- The process is simple to carry out, and you'll be supported every step of the way.
- This type of donation allows you to give even more while reducing the cost of your gift to approximately 1%.
- You'll receive a tax receipt equivalent to the fair market value of the donated flow-through shares, and you'll be entitled to special federal and provincial tax credits for flow-through shares.

**Call us to  
learn more**

### **Catherine St-André, Senior Advisor**

Major and Planned Gifts

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The information contained in the present document is of a general nature and does not, in any way, replace the advice of professionals who may take into account your specific situation.