Flow-Through Shares

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What is it?

To help resource companies raise money, the Canadian Government offers significant tax incentives for investors to encourage investing. The investments in these companies are referred to as “flow-through shares”. Investing in these flow-through shares allows investors to receive a deduction equal to 100% of their investment and converts otherwise fully taxable income into capital gains.

Advantages

- Reduce taxes in year of investment (100% tax deductible)
- Defers taxes to a later period (to a year when they are in a lower tax bracket)
- Utilization of Capital losses
- Can reduce the cost of charitable donations (donate the shares)
- Converts otherwise fully taxable income into lower-taxed capital gains (50% taxable) resulting in a 26% tax savings
- Can smooth out capital gains over time to reduce the effective marginal tax rate
- Can earn up to 8-12% capital appreciation on the investment annually if put into proper plan (i.e. renewable energy)

“Investing in these flow-through shares allow investors to receive a deduction equal to 100% of their investment”

Disadvantages

- Can be a risky investment (offset by investing in interest guaranteed returns)
- The shares are often sold at a premium due to the significant tax benefits
- There are often steep minimum purchase requirements
- Not a very liquid investment (typically need to hold onto the shares for 18-24 months before you can sell)

Who is it for?

- Individuals in the highest marginal tax bracket
- Individuals seeking immediate tax savings
- Individuals with excess savings and a well-diversified portfolio to take on the associated risk.

For individuals seeking immediate tax savings

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