

Gift of Appreciated Securities - Flow Through Shares

In this Bulletin we will look at an excellent way for individuals owning Flow-through shares to maximize their tax savings by making a gift to charity.

The 2006 Federal budget enhanced the incentives for Canadians to donate publicly traded securities [shares or mutual funds] directly to charities by eliminating the payment of capital gains tax on such direct gifts. This enhancement created an excellent gifting mechanism that may multiply the benefits to you and to your favourite charity.

The larger the accrued capital gains on the donated security, the greater the benefit to the donor, and that's why gifting flow-through shares can be a beneficial option. Flow-through shares that have converted to a mutual fund will have substantial capital gains. Individuals owning these securities will often pay a significant amount of capital gains when selling the shares, losing part of the tax gains made when purchasing this kind of investment, but by gifting them in kind to a registered charity, capital gains liability is reduced to zero.

Christian Stewardship Services has seen gifts of appreciated securities/mutual funds increase dramatically. Many donors have recognized the tax benefit of gifting flow-through shares to maximize their tax savings. When donating Flow-through shares you'll be entitled to a donation tax credit for the value of the shares when you donate them. *Savings will vary by province.*

Initial cost of Flow Through resource shares	\$10,000 –immediate write off is approx. 97% - lowering taxable income by \$9,700
Income Tax savings due to flow-through purchase. (based on 46% marginal tax rate)	9,700 @ 46% = \$4,462
After two years – flow-through shares convert to a mutual fund	\$10,000
Donor gives converted mutual fund directly to charity Tax credit from gift \$10,000 @ 46% Net Cost to Donor:	\$10,000 Gift \$4,600 tax credit \$10,000 (purchase) -\$4,462 (credit when purchased) -\$4,600 (tax credit from donation) \$938 (net cost)

Gifts of Appreciated Securities *...continued*

SO – WHAT IS A FLOW-THROUGH SHARE?

Flow-through shares are a long-standing source of equity for Canadian mining and resource companies. Resource companies typically have huge upfront exploration costs and little or no revenue. That means they don't need the tax deductions they would incur as income-generating companies. To finance that exploration, they'll issue shares and allow the tax deductions to "flow through" to investors. These deductions reduce the investor's tax cost of the shares. When exploration is complete, typically 2 -3 years later, the shares are usually converted, on a tax-deferred basis, to publicly traded securities. Capital gains tax liability on them is often significant. That's when they can be donated to charity to produce the advantages described overleaf.

Flow-Through shares are not for everyone. They can often be high risk investments, and we don't suggest everyone go out and buy these investment products. Please consult your financial/ tax advisor.

Connecting Donors, Charities & Ministries

Christian Stewardship Services exists to support the work of its partners and donors.

We are pleased to assist donors by offering a convenient facility for donors to take advantage of the 2006 budget change. CSS can receive your Appreciated Securities Gift, including Flow- through shares when they have been converted to mutual funds, and look after the details.

1. We will provide the necessary forms and information to handle the transaction.
2. We will arrange to sell the securities.
3. CSS will issue a donation receipt for the fair market value of the shares when received.
4. CSS will follow your instructions on distributions to the charities you wish to support – as many charities as you wish.
5. CSS can give anonymously on the your behalf
6. CSS provides flexibility in distributing the proceeds – either immediately to charity or holding them for you in an Endowment or Donor Assisted Fund.

WHAT DOES THIS SERVICE COST?

There is no cost to the donor and CSS uses a discount brokerage firm to dispose of the shares. CSS distributes gifts to partners at no charge, and deducts only 2% of the gift to non partners.

This bulletin is not intended to provide tax advice.

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